BreakingGround

THE MAGAZINE OF THE MASTER BUILDERS' ASSOCIATION OF WESTERN PENNSYLVANIA

JANUARY/FEBRUARY 2009

Heavy & Highway Update

2009 National & Regional Construction Forecasts

What Does an Obama Administration Mean to Development

Heavy and Highway Trend: Design Build

Tracking Roller Coaster Cost Trends

MBA Master Builders' Association of Western Pennsylvania, Inc.

The Construction Industry Evening of Excellence

Southwestern Pennsylvania is blessed with a brilliant and unparalleled design and construction industry that has the rest of the country envious. Join your peers to celebrate our region's design and construction industry.

The Construction Industry Evening of Excellence is about uniting the firms and individuals that are transforming our region. Looking into our future, the design and construction industry will be relied upon for its commitment of excellence in every project built. This commitment to excellence will be on display during this event as the winning projects in the MBA's Building Excellence Awards will be honored.

Thursday, February 26, 2009
5:00 to 8:30 p.m.
Heinz Field East Club
$20 Per Ticket

Event includes two drink tickets and strolling buffet.

For ticket information, please call the Master Builders' Association at 412-922-3912 or email jobrien@mbawpa.org.

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Current event information will be posted on www.mbawpa.org.

See you on February 26th at the Evening of Excellence!

CONTENTS 2008

PUBLISHER
Tall Timber Group
www.talltimbergroup.com

EDITOR
Jeff Burd
412-366-1857
breakingground@mbawpa.org

PRODUCTION MANAGER
Carson Publishing, Inc.
Quellé Diggs

ART DIRECTOR/GRAPHIC DESIGN
Carson Publishing, Inc.
Tarence Davis

CONTRIBUTING PHOTOGRAPHY
Carson Publishing, Inc.

ADVERTISING SALES
Bill Upton
412-201-3222 EXT. 208

MORE INFORMATION:
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CORRECTION:
In the November/December edition the last name of Chris Andreyo, property manager for PWC Property Solutions was incorrectly spelled as Andreo in the Best Practice article.

Cover Photo:
Mon-Fayette Expressway,
Ed Rieker Photography

FEATURES & DEPARTMENTS

3 PUBLISHER'S NOTE

4 NEWS FROM THE STREET
The Separations Act waiver program is reinstated again, AIA Design awards are announced, NAIOP reports its Vital Signs Survey results, Pittsburgh is a top ten green jobs city.

8 REGIONAL MARKET UPDATE
The outlook for 2009 is for another year of big projects, but the opportunities will be fewer.

10 NATIONAL MARKET UPDATE
All signals are for a grim 2009, with federal spending on infrastructure as the lone bright spot.

12 WHAT'S IT COST?
A detailed look at the forecast for diesel, steel, asphalt and cement.

14 FEATURE STORY
The Heavy and Highway Update.

23 PROJECT PROFILE
Boulevard of the Allies bridge replacement.

28 FIRM PROFILE
Cleveland Brothers.

30 LEGAL PERSPECTIVE
Reasonable approach to unreasonable price fluctuations.

32 FINANCIAL PERSPECTIVE
Financing public construction.

35 MBE/WBE SPOTLIGHT
VideoTek Construction.

36 MANAGEMENT PERSPECTIVE
What will an Obama administration mean for construction in PA?

38 TREND TO WATCH
Design/build highway work is growing.

40 BEST PRACTICE
Using heavy equipment for fun and profit (or at least profit).

42 AWARDS AND CONTRACTS

45 FACES AND NEW PLACES

46 THE INDUSTRY IN THE COMMUNITY

52 CLOSING OUT
PennDOT Secretary Allen Biehler.

Publisher's Note

I have to admit I was tempted to start this column out with something along the lines of, OK now panic. After the last edition I received an unusual number of calls from readers who had nice things to say about the 'don't panic' message from the November/December edition.

The unfortunate thing for the folks who were hoping that the fear had subsided in the markets is that the lag in how economic data is reported ensured bad news throughout the rest of 2008, even if nothing new and bad happened. It has taken a couple of months for all of us, consumers and businesses alike, to adjust to the crash, so it shouldn't have been a surprise to analysts that job cuts would follow quickly or that consumer spending was down. But, like the crash that started this out, it was.

Since the election, the incoming administration has chosen to focus its attention as much on solving problems as making a smooth transition. Ironically, what specifics the candidate Obama revealed about how he'd govern seemed unsettling to the business community (particularly small businesses); however, the actions taken by President-elect Obama have so far served to calm the business climate more than anything else. It's probably just that getting direction we don't like feels better than getting no direction, but the next president's resolve in dealing with the economy he's inheriting has taken the edge off the panic.

As we head into the New Year one of the major programs of the Obama administration will have a dramatic impact on the sector of the construction industry we're examining in this edition of *BreakingGround*, the heavy and highway sector. It's uncertain as I write just how much stimulus will get through Congress, but it seems likely that many billions will be spent on mending the nation's highways and bridges. For a region with lots of both of those, Western PA stands to benefit more than most from this kind of stimulus package.

Throwing money (especially money that we don't really have) at a problem is a risky solution. At the root of the current economic woes is the overextension of credit based on ever-rising home values that stopped rising, and fixing bridges won't solve that. President-elect Obama's solution seems to be aimed further upstream, creating jobs that will offset those lost by the housing/finance collapse, and helping to create demand for goods and services, and houses again through wages. While this kind of stimulation has inflationary side effects, there will also be some residual benefits beyond the job creation.

The state of disrepair that characterizes many of Pennsylvania's roads and bridges and sewer systems also plagues most of the nation's states. With the rising costs and lower revenue these past couple years, states could not afford to pave and repair much of what needed to be done. Our state's infrastructure had been deteriorating faster than PennDOT or municipal government could keep up with, and an economic stimulus package that focuses on infrastructure might allow for Pennsylvania to make up ground or even get ahead of the potholes and structurally deficient bridges. It's not likely that it would happen otherwise.

As for the future ramifications, I think we'd do well to reflect on the economic power that 300 million people could bring to bear before we despair of the debt burden our children will inherit. One of the positive bits of economic news in December was the report that American household debt declined in November for the first time in the 50+ years that the Federal Reserve has been tracking it. Total outstanding debt declined by $30 billion, and mortgage debt fell at an annual rate of 2.4%. Regardless of whether the reduction was due to higher payments or less availability, the result does not hurt the chances of recovery long-term.

I think the message that our leaders should be putting out there right now is that everyone has to pull a little extra weight for a while. My generation hasn't really had its global crisis to work together to defeat (unless you count Disco). We thought we could make a clean getaway without having to deal with the difficulties our parents bored us stiff talking about. Well, it looks like we might have a real problem on our hands now, so it's time for us Americans to think about what's good for society first, and we Boomers can provide a leading example.

Who knows? Maybe this recession will give us some stories to bore our grandkids stiff.

Jeff Burd

News From The Street

AIA Design Pittsburgh Awards Announced

The Pittsburgh chapter of the American Institute of Architects presented the 2008 Design Awards on Thursday, October 30 at the annual Design Awards Ceremony. Approximately 200 professionals saw the presentation of sixteen awards, selected from ninety-three submissions, including the prestigious Silver Medal and the Columbia Gas of Pennsylvania People's Choice Award.

The Design Awards are judged by an out of town jury and submissions are open to any member of AIA Pittsburgh, AIA Middle Pennsylvania or any member of any AIA chapter across the country who has a project in the 22-county area represented by AIA Pittsburgh and AIA Middle Pennsylvania.

Meadowcroft Rock Shelter (photo by Massery Photography).

Last awarded in 2005, the Silver Medal is AIA Pittsburgh's highest award and is presented at the jury's discretion. The 2008 Silver Medal was awarded to Pfaffmann + Associates PC for the Meadowcroft Rockshelter designed for the Historical Society of Western Pennsylvania. The contractor was F. J. Busse Company.

Eastside Retail Master Plan (photo by Massery Photography).

PNC Firstside Plaza (photo by Massery Photography).

Chatham University's Mellon Hall (photo by Massery Photography).

Sarah Heinz House expansion (photo by Massery Photography).

Five Honor Awards, granted for overall excellence to projects in the Architecture, Regional & Urban Design, and Interior Architecture were awarded to: Bohlin Cywinski Jackson / LZT/Larson Design Group for the Thomas M. Siebel Center for Computer Science, University of Illinois, Urbana-Champaign; Rothschild Doyno Collaborative for The Excavation of Mellon Hall at Chatham University, Mosites Construction, contractor; studio d'ARC architects, P.C. for Live/Work Studio II, Gerard Damiani & Debbie Battistone, clients; The Design Alliance Architects for their Eastside Phase 2 Master Plan for The Mosites Company, Mosites Construction, contractor; FortyEighty Architecture for the Light Loft project.

Four Awards of Excellence for Open Plan and Architectural Detail/Craftsmanship were given to Ficca Architecture / EDGE studio for Carnegie Mellon University Digital Fabrication Lab; Burt Hill / SFA Architects for Northern Kentucky University Center for Informatics; Endres Ware for the design of West End Pedestrian Bridge for Riverlife Taskforce; and Ficca Architecture for Park City House Addition – Monocular Sleeve.

Three Certificates of Merit recognized outstanding aspects of a project such as detailing or adaptive reuse: Rothschild Doyno Collaborative / William McDonough + Partners for Sarah Heinz House, Dick Corporation, contractor; EDGE studio for Richard Chen Pittsburgh's interior design; and for landscape architecture, Astorino for the PNC Firstside Park, P. J. Dick Inc. contractor.

AIA also awarded two Green Design Citations in recognition of projects that have integrated green building strategies and practices into the design to reduce environmental impact to: FISHER ARCHitecture for 928 South Aiken Avenue, and Pfaffmann + Associates, PC for Carnegie Museum of Natural History's Powdermill Nature Reserve

And, finally, the Columbia Gas People's Choice Award was presented to David J. Roth, AIA. More than 250 citizens of the region voted the Animal Friends: Water Garden & Shelter as the design that most inspires them.

Separations Act Waivers Reinstated

The Commonwealth Court has decided that a self-imposed moratorium on Separations Act waiver applications by the Department of Education (DOE) must end, even while the Department finishes an evaluation of the fiscal benefits of each side. The study, which was legislatively mandated in July (Act 61 of 2008), required the DOE to evaluate the waiver program to determine whether or not school districts should be permitted to opt out of the Separations Act for capital projects. The Department had suspended the waiver program during the course of the study.

This fall, the Muhlenberg School District sued the DOE in Commonwealth Court for imposing the moratorium.They argued that Act 61 did not authorize the Department to suspend this program. On November 20, the Court ruled in favor of the District. They found that while Act 61 authorized the Department to study the issue, there was no provision allowing them to suspend the program. The Court's decision found no specific statutory authority for the Department to suspend approving the applications for waiver.

Prior to the Muhlenberg decision, the Act 61 taskforce held several meetings to discuss the benefits of giving school districts the option to choose multi-prime or single prime bidding. Act 61 requires the group to provide recommendations to the Governor about the issue, something Secretary of Education Gerry Zahorchak hopes to do by January 2009.

NAIOP Vital Signs Surveys Developers

The National Association of Industrial and Office Properties announced the results of its annual Vital Signs survey on November 2. Not surprisingly, the survey found that respondents were pessimistic about the direction of the economy, hoping at best for stabilizing conditions in 2009. Generally, respondents indicated the trend for vacancy rates and rents to be negative, capital to be unavailable, and overall sentiment at its lowest since the 2001-2002 recession.

Of even more concern was the fact that the survey was conducted in early September, prior to the height of the financial turmoil. The survey is done nationally, which accounts for many of the trend observations running counter to those in Western PA. The highlights of the survey:

The economy has at best stalled. Few sense any growth in the economy, with respondents split nearly equally in classifying the economy as in a recession or as flat. Only 12 percent think that the economy will be in a recession in 2009; 66 percent believe it will be flat; and 22 percent predict growth.

The credit crisis has become a huge factor. Second to the economy, a lack of financing is perceived as the second greatest threat to the health of the nation's industrial and office markets. Ninety-two percent of respondents said that borrowing was tougher in 2008 than in 2007; 30 percent said borrowing will be even more difficult in 2009.

Industrial markets weakened sharply in 2008, with limited optimism for 2009. Industrial rents were flat in 2008, and 29 percent saw drops in their local markets. This is consistent with the increase in industrial availability rates, from 10.2 percent at the end of 2007, to 11.4 percent in third quarter 2008. Stability is expected in 2009, with only

21 percent expecting that rents will deteriorate. The economy/demand has surged as the greatest threat to the health of the industrial market, followed by the lack of financing and construction materials costs.

The financial crisis has played a significant role in the office sector. Nearly one-third of the respondents saw their local market's rents deteriorate in 2008, and 28 percent expect further declines in 2009. This is reflective of the increase in office vacancy rates from 12.6 percent at year-end 2007, to 14.1 percent in third quarter 2008. Most of the increase in vacancy rates has been in regions that have been decimated by the housing and construction sectors.

Geographically, markets heavily dependent on financial services (New York, Charlotte, Boston and San Francisco) were identified as the next to expect vacancy increases. The biggest concerns were from the Mountain states, where nearly half the respondents felt that rents will decline further, followed by the Pacific/California at 39 percent.

Economic and financing issues were still the primary concerns in the investment outlook. Overall acquisition activity is down by 60 percent compared to 2007, due to the lack of available credit in the market and investors' concerns that prices haven't hit bottom. According to Real Capital Analytics, overall cap rates are up between 100 to 200 basis points in 2008 and many market players anticipate further expansion.

Development potential saw large drops in 2008. The proportion of respondents positively viewing central business district office development declined from 28 percent to 9 percent, and suburban office declined from 33 percent to 4 percent. Warehouse/distribution took an equal fall from 43 percent to 15 percent. Mixed-use development potential fell from 42 percent to 12 percent. Only biotech and medical office development were relatively healthy at 21 percent and 32 percent respectively. This is indicative of the shortage of real estate product in health care and research, and that aging demographics are becoming a more paramount demand driver.

GREEN BUILDING NEWS

Rebecca Flora to Head US Green Building Council Education and Research

One of the region's pioneers in green building is taking the national stage full time. Green Building Alliance's Executive Director, Rebecca Flora, has been named Senior Vice President, Education and Research for USGBC, effective January 2009. Flora served as board chair for the USGBC during 2008.

Leading GBA since 1997, Rebecca Flora has been instrumental in building upon earlier sustainable design and construction successes in Pittsburgh, helping to establish the region as one of the world's leaders in green building.

Pittsburgh Ranks in Top Ten Cities for Green Jobs

Forbes Magazine has come out with another category of top cities in which Pittsburgh ranks near the top. Forbes ranked the top cities in the U. S. for the number of 'green' jobs created, and Pittsburgh ranked tenth. The other nine cities included essentially the largest metropolitan areas in the country, while Pittsburgh still ranks just outside the top fifty for population.

Forbes developed the list in recognition that a sustainable jobs economy could soon become the nation's fastest-growing job segment, accounting for roughly 10% of new jobs over the next 20 years. The report forecasts that by 2038, renewable electricity production will create 1.23 million jobs; alternative transportation fuels, 1.5 million jobs; engineering, legal, research and consulting positions will be more than 1.4 million; and commercial and residential retrofits at 81,000 jobs, for a total of 4.2 million.

Rank	City
1	New York
2	Washington, DC
3	Houston
4	Los Angeles
5	Boston
6	Chicago
7	Philadelphia
8	San Francisco
9	San Diego
10	**Pittsburgh**

GBA Announces Green$ense 2009: Beyond Buildings

The Green Building Alliance's one-day premier event will be held Tuesday, March 31, 2009 at the David L. Lawrence Convention Center. This year's program features keynote speakers:

Harvey Bernstein, vice president of industry analytics, alliances, and strategic initiatives with McGraw-Hill Construction. Mr. Bernstein manages the Research and Analytics division, which develops and maintains the company's construction industry statistics, building stock information, and related databases.

Joe Van Belleghem, LEED AP, partner at Windmill Developments, a triple bottom line development company focusing solely on green building developments. Windmill currently has several LEED projects throughout

Canada, including Dockside Green in Victoria, a 1.3 million-square-foot, mixed-use brownfield sustainable community redevelopment.

LEED 2009 Passes USGBC Member Ballot

LEED 2009, the long-awaited update to the internationally recognized LEED green building certification program, has passed member ballot, and will be introduced in 2009 as the next major evolution of the existing LEED rating systems for commercial buildings. It includes a series of major technical advancements focused on improving energy efficiency, reducing carbon emissions, and addressing other environmental and human health outcomes.

LEED 2009 will also incorporate highly anticipated regional credits, extra points that have been identified as priorities within a project's given environmental zone. LEED has also undergone a scientifically grounded re-weighting of credits, changing allocation of points among LEED credits to reflect climate change and energy efficiency as urgent priorities. This will be one of the most significant changes to the rating system, and will increase the importance of green building as a means of contributing immediate and measurable solutions toward energy independence, climate change mitigation, and other global priorities.

Process innovation in how new technical advancements are incorporated into LEED will also be introduced alongside LEED 2009, including a "pilot process" for individual credits that will allow major new technical developments to be flexibly trialed, evaluated, and incorporated into LEED.

The U.S. Green Building Council (USGBC) announced the opening of the first public comment period for its LEED for Neighborhood Development rating system. The program is the first national certification system for green neighborhood design and development.

LEED for Neighborhood Development is a collaboration between the USGBC, the Congress for the New Urbanism (CNU), and the Natural Resources Defense Council (NRDC) and integrates the principles of smart growth, new urbanism, and green building. USGBC began pilot testing LEED for Neighborhood Development in early 2007, and accepted nearly 240 pilot projects into the program, representing 39 states and 6 countries. The rating system will evaluate projects on criteria related to smart location and linkage to the community at large; neighborhood pattern and design; and green construction and technology. BG

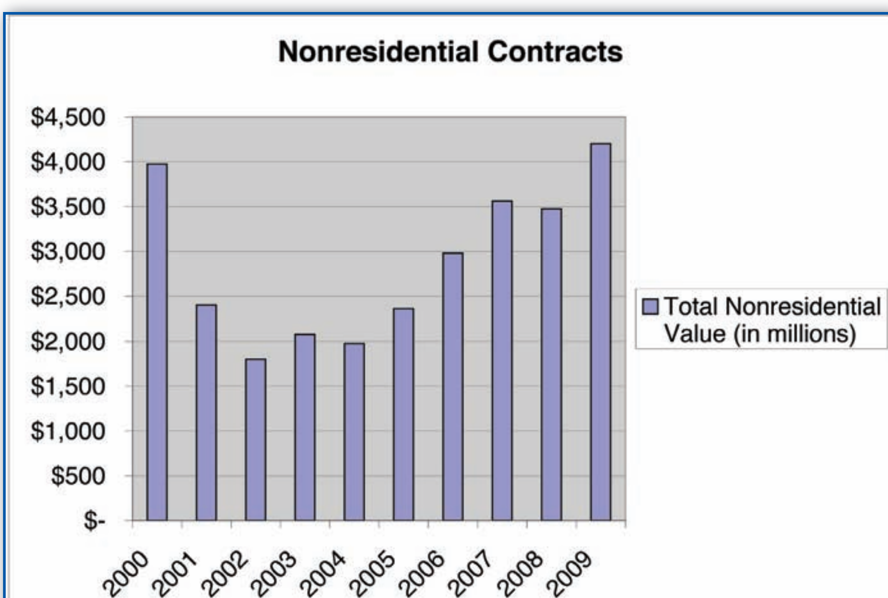
REGIONAL MARKET UPDATE

Since the beginning of the banking and financial problems bubbled to the surface in mid-summer, the conventional local wisdom has been that Western PA will be somewhat resistant to the potential recession, now a reality. Much of the economic evidence has supported that thesis throughout the fall, even after the market panic in October. Metropolitan Pittsburgh has job growth rather than decline, and housing prices have continued to appreciate, albeit slightly.

As the holidays began to approach, however, it became clear that the local real estate and construction market was being cooled off by the same negative influences that were hurting the national market.

The national economic dilemma hasn't hurt the regional construction economy in Western PA until this past quarter, but it is beginning to impact it negatively and deeply. The problems are showing up in three major ways:

Credit is virtually frozen for companies wanting to develop, either speculatively or for themselves. Spec building is effectively nonexistent nationally, and that includes Pittsburgh. Build-to-suit or owner-occupied construction has become stuck because lenders want so much in equity participation that the business plan for the building doesn't make sense. Even in the case of an owner who wants to expand his growing business, the lender wants such redundant assurance of cash flow that it's almost impossible to predict. It is reasonable to expect lending to increase again cautiously in the spring, but no reasonable person wants to actually predict that at this point.



Non-residential contracting activity since 2000. Source Tall Timber Group.

The downturn has diminished the expectations for success in 2009 for businesses of all sorts, so that any plans for growth are being tabled until some progress is shown. In this way, the current condition feels much like 2003 (and that's not good news), when lots of healthy businesses put their wallets in their pockets until they felt comfortable, which was into 2005. Whereas very few architects had experienced projects on hold in October, almost all have had multiple projects shelved by now.

The bid market has slowed. This is very significant because so many contractors came into 2008 with record backlogs, and were much more selective in bidding during the first half of the year. Now as more of their people came off projects, there hasn't been the usual amount of work bid to fill the project schedule. As a result, contractor backlogs are burning off and supervisory staff has nowhere to go. This has potentially negative consequences for 2009, especially for cash flow in the first quarter.

Contracting volume in October and November was lighter than normal, and much lighter than other months this year, around $200 million each month. For the year-to-date the volume is at $3.3 billion, and the number for all of 2008 will top $3.5 billion, but the trend will be for declining volumes next year. Expect to see bidding and contracting from September 2008 through April 2009 to be about $1 billion, excluding the projects over $100 million. That's about half what it was the last two years.

Housing is at its lowest point since the recession years of 1981-1983. There were 115 new single-family permits in October, and 81 in November, the lowest number in any month since Pittsburgh Construction News began gathering information on the region's housing in 1994. Single-family housing will fall below 2,000 units for the full year of 2008, perhaps falling to 1,700 new homes. Permits for all housing units may only reach 3,000 units or about 60% of the number started in 2005. The outlook for that market is for recovery to start in 2009, but that's more a reflection of how lean it is now than of conditions improving significantly.

What is puzzling about the housing slump here is that the fundamentals that drive housing, jobs and credit, are much stronger in Western PA than the nation as a whole; in fact, those factors aren't dramatically different than the conditions three or four years ago. Job creation is positive in the region, and credit conditions, while tighter, have not reached a point where mortgages are difficult to get. It's more likely that the extended slowdown is a reflection of the buyer sentiment, and the nature of the homebuilder in the region. Pittsburgh's biggest builders, Ryan Homes and Heartland Homes, are not large-scale speculators, and the majority of the builders produce between five and fifteen homes a year. If their collective perception is that demand is slow it's more likely that most of the regional builders will cut back or eliminate any speculative building, reducing supply to contract-only levels.

Given the mind-set of the consumer as 2009 begins, housing starts should remain at these low levels until there is certainty that the economy has hit bottom, or until the consumer rallies behind any goodwill that new leadership can bring.

This is a gloomy period, no getting around it. For a region with strong economic fundamentals, like Western PA, it's possible that the slowdown will only last until there is a perception that the last of the bad news has been heard. Clearly, a relaxation of lending standards back to normal conditions in the first part of 2009 could open development back up in Western PA, especially with borrowing rates falling towards five percent. And even with chillier market conditions here as the year starts, there are still a number of large projects getting underway that will drive the contracting volume to near record highs again in 2009.

Contracts are being let or pre-qualifying is underway for bidding on the UPMC Monroeville hospital, the $60 million Moon Schools project, $1 billion USS Clairton Works modernization and the $1.2 billion Allegheny Technologies plant in Brackenridge. Also planned for the first half of the year are the UPMC Riedbord Research Center, the first of the $200 million design/build state prisons, and the University of Pittsburgh's BST4 building.

As the graph on page eight shows, the volume from these large projects should drive contracting volume for 2009 to somewhere between $3.5 and $4 billion. The big difference between the coming year's outlook and the previous two years is that the majority of the market will be competing for less than $1.5 billion in non-residential construction. That will make for tough sledding for most of the market if the slowdown takes hold here.

The hopeful signs for the region's commercial construction market remain the lower vacancy rates for office and industrial space, and the favorable rental rate trend. Assuming that Western PA continues to be more resistant to rising unemployment, a return to more normal credit conditions will be the key to better contracting in 2009. BG

NATIONAL MARKET UPDATE

As expected, the last 60 days of 2008 revealed one dismal economic report after another in reflection of the stunning crash of the stock markets in early October and the breakdown in the credit markets. If there's a positive to derive from all the bad news (and this is definitely a reach), it is that the negative reaction by consumers and businesses was swift and decisive, which may hasten the beginning of recovery. But in the meantime, the national economy and construction markets will experience contraction.

From among the litany of gloomy data several key areas of the construction economy are in very different positions from the beginning of 2008, and bear watching. The most telling of these are the status of the housing market, commercial construction and architectural billings.

On the residential front the Mortgage Bankers Association (MBA) issued its expectations for the coming year:

- Total existing home sales for 2008 will decline about 12 percent from 2007 to 4.96 million units. Sales will pick up about three percent in 2009.
- New home sales will decline about 36 percent from 2007 to 500,000 units. Sales are expected to decline another 12 percent in 2009.
- Median home prices for new and existing homes are expected to continue their decline in 2008, falling about 7-8 percent. Prices should decline more modestly in 2009.
- Total mortgage production will be down 22 percent, to $1.81 trillion in 2008.

While all other economic activity slumped at the end of November, the MBA announced that the drop in mortgage rates had created a tsunami of loan applications in the week following Thanksgiving, rising 112.1% over the previous week.

December 9, the National Association of Realtors (NAR) reported October's existing home sales fell .7% compared to September, and only 1% compared to October 2007, not as steeply as economists had feared, and a much smaller decline than most other indicators in October. The October data also showed declines across all regions, an indication that the financial crisis was keeping prospective buyers on the sidelines, and NAR economist Lawrence Yun estimated that 45% of the existing home sales were foreclosures.

Yun called on the incoming administration to consider mortgage assistance as part of any stimulus package, suggesting that $50 billion should be used to buy down interest rates to allow buyers to qualify and troubled mortgage holders to refinance at affordable levels.

> "Reinforcing the lean outlook for commercial construction is the steadily declining Architectural Billing Index, conducted monthly by the American Institute of Architects."

The Center for Economic and Policy Research (CEPR) issued a radical solution in its December report on housing values: let the prices fall completely. The report, "The Key to Stabilizing House Prices: Bring Them Down," notes that prices are still dramatically out of line in 'bubble' markets and calls for Fannie Mae and Freddie Mac to restrict the buying of mortgages in these areas. This would lead to fewer loans being issued in these markets and prices would quickly adjust to normal levels. The fact that house prices exploded by 80 percent from 1996 to 2006 while rents increased by only 4 percent over the same time period points to a degree of speculation and the fact that prices still have further to fall before the bubble deflates.

For those faced with foreclosure due in part to falling home prices, CEPR suggests the best solution is one that amends the rules on foreclose to give homeowners the right to rent their home at the market rate, keeping families in their houses and giving bankers an incentive to renegotiate terms by making foreclosure an even less attractive option.

While virtually all residential market indicators are somewhat negative, the last six months of 2008 saw several upticks in home sales, a much smaller decline in sales after the stock market crash, another double-digit decline in new home construction, and falling mortgage interest rates. Together these factors all seem to indicate a bottom to the housing decline has been reached. Economists expect that values will decline only slightly in 2009, and most expect to see buyers coming back to the market by mid-year. Of course, most felt that the housing recovery would begin in 2008 as well. Whether 2009 marks an increase in home buying or simply a prolonged bottom, there is no evidence that demand and supply will align so that new home construction will start recovering anew in 2010.

Like virtually all real estate business cycles, this one has seen the downturn in housing precipitate a significant downturn in retail construction. Already slow for more than a year, retail store construction has become extremely targeted, with retailers adding stores only in markets that have been resistant to the recession so far (and those are few and far between). Major projects have been deferred or abandoned, and most that had already begun have seen significant dropoffs in pre-leasing, and significant withdrawals from previously committed lessees.

Although another indicator of slow retail construction probably isn't necessary, the attendance at the International Council of Shopping Centers (ICSC) 2008 CenterBuild shows how deep the chill has gone. Held in Phoenix, the show normally attracts 2,500 attendees, yet only 1,500 paid to attend the 2008 conference, and only around 1,000 of those showed up.

This sector, however battered now, bears the closest scrutiny in 2009, particularly if the housing market begins to show life. In a typical cycle, retail activity will pick up six to twelve months after housing begins recovery. If a stimulus package and foreclosure relief begins to help consumers out of the doldrums during the first quarter, renewed planning of shopping centers and stores will begin by the end of 2009, with the start of a new retail construction cycle for openings in the summer of 2010. Should the relaxation of credit be limited to housing, or if consumers limit themselves once housing recovers, the slump in retail construction will continue into 2011.

Other sectors of the commercial construction market are also in a tailspin at year's end. Hotel and office vacancy rates were up significantly. A deteriorating economy and high fuel costs had already negatively impacted the hospitality industry this past summer, and the rapid decline in the financial markets deepened the slowdown in business travel that normally occurs in the fourth quarter, as corporate managers pare back to meet budgets.

Office construction has been declining slightly throughout 2008, as the loss of almost two million jobs has eroded demand. The accelerating pace of layoffs and shutdowns in fourth quarter 2008 will keep demand soft, with a worsening outlook for white-collar job creation for 2009. Also threatened by the poor jobs outlook are the manufacturing and warehousing markets, both of which had been positive for new construction through mid-2008.

Reinforcing the lean outlook for commercial construction is the steadily declining Architectural Billing Index, conducted monthly by the American Institute of Architects. The ABI measures billings in comparison to the previous month, simply tracking respondents' increase or decline so that a reading of 50 is neutral. The October ABI showed the index at 36.2, down from a positive 53 in October 2007. Unlike previous surveys, the AIA now finds that even members with strong institutional practices were seeing declining billings.

As 2009 begins, the Federal government will give the reins to Barack Obama, and his administration has indicated during the transition that it intends to stimulate the economy through infrastructure spending, and through continued programs aimed at freeing up credit. While these efforts may support heavy and highway construction, most economists don't see more available credit having the same impact.

"The massive intervention by the Treasury and Federal Reserve in the credit markets should unlock bank lending and bond markets in the next few weeks. But the availability of credit is no guarantee that borrowers will rush to take out loans again," offered Ken Simonson, Chief Economist for Associated General Contractors. "For 2009, I predict nonresidential spending will drop by 3 to 9 percent; materials costs will be down 1 to 5 percent, depending on the project; and labor costs will rise 3 to 4.5 percent."

Simonson also voiced concern over the financial health of the individual states, as many are now struggling to meet balanced budget demands. His concern is that an Obama stimulus may not lead to new infrastructure construction levels so much as replacing construction that had been cut back.

National publisher McGraw-Hill Construction's outlook anticipated declines affecting nearly every type of construction this year and next. McGraw-Hill reported that office construction is set to decline by 18 percent, and store construction by 15 percent in 2009, after declines in office construction of 17 percent, and store construction by as much as 30 percent in 2008. The company's Vice President of Economic Affairs, Robert Murray presented a similar forecast for the other commercial categories, anticipating declines in hotel construction of 19 percent, in manufacturing of 10 percent and a 16 percent drop in warehouses.

McGraw-Hill also forecasts public works spending declining 5 percent in 2009, with much of the decline driven by state revenue shortfalls. Federal funding, however, could help make up the difference. "There is potential for substantial funding as part of a second stimulus bill," Murray said. "We'll find out in the next couple of weeks." BG

WHAT'S IT COST?

Just six months ago the price of crude oil and diesel hit all time highs, and price escalation of basic construction materials seemed to be at a plateau from which the next ascent would begin. What a difference a few bad months make.

A study of the table below shows that the global recession that was sparked, or accelerated, in late September 2008 has cooled off inflation of construction materials and building products in less than one quarter. Only seven of the individual items showed any increase from October's levels, with the biggest increase coming from a less than whopping 1.1 percent rise in cement prices. The average of all 27 of the prices tracked by *BreakingGround* was a 6.3 percent decline.

The factors creating the rapid deflation are the same ones impacting the entire economy. With a continued soft or further declining residential market, and rapidly softening demand for non-residential construction, the outlook for even materials that have been increasing slightly this fall, like drywall or concrete, is for falling prices as the first quarter unfolds.

PERCENTAGE CHANGES IN COSTS

	November 2008 Compared to—		
	1 mo.	**3 mo.**	**1 yr.**
Consumer, Producer & Construction Prices			
Consumer price index (CPI-U)	1.0	-1.5	3.7
Producer price index (PPI) for finished goods	-2.9	-5.5	0.4
PPI for materials and components for construction	-3.2	-5.4	4.9
Costs by Construction Types			
Highway and street construction	-6.6	-11.4	3.7
Nonresidential buildings	-3.3	-5.5	4.2
New warehouse construction	0.0	3.7	6.3
New school construction	0.2	5.8	8.2
New office construction	0.3	4.6	6.3
Multi-unit residential	-1.9	-3.5	4.5
Single-unit residential	-1.3	-1.8	6.2
Costs for Specific Construction Inputs			
#2 diesel fuel	-20.3	-35.2	-24.2
Asphalt paving mixtures and blocks	-0.5	-1.5	44.9
Concrete products	1.0	1.5	4.6
Brick and structural clay tile	0.5	0.3	0.7
Plastic construction products	-1.1	-0.1	5.5
Gypsum products	0.7	1.1	6.4
Lumber and plywood	-2.0	-6.1	-6.0
Architectural coatings	0.2	-0.4	10.6
Steel mill products	-9.0	-16.0	21.3
Copper and brass mill shapes	-11.3	-25.4	-18.9
Aluminum mill shapes	-3.8	-8.6	-1.1
Fabricated structural metal	-2.8	-3.0	13.2
Prefabricated metal buildings	-1.7	-1.6	26.4
Crude petroleum (domestic production)	-30.2	-53.0	-40.4
Cement	1.1	-0.2	-0.6
Iron and steel scrap	-41.7	-72.1	-44.9
Copper ores	-30.4	-40.4	-5.2

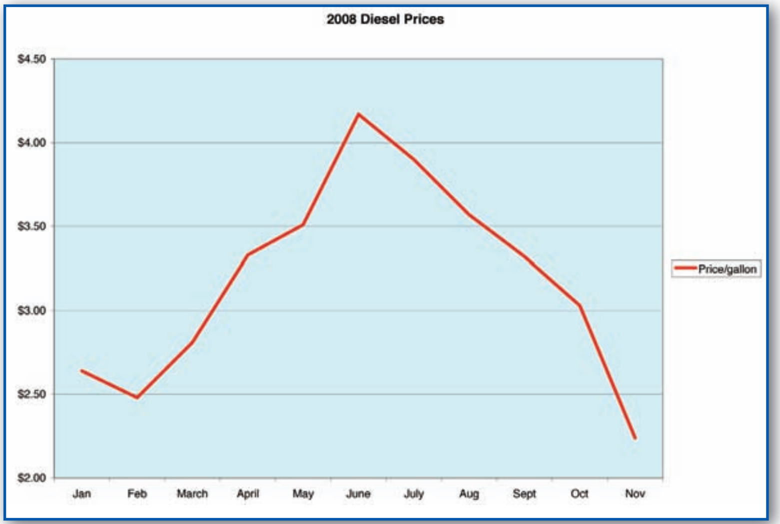
Source: Bureau of Labor Statistics
Compiled by Ken Simonson, Chief Economist AGC
* Note: Costs for office, school & warehouse not available

> "VERY FEW MARKET CONDITIONS ARE EMERGING TO SUPPORT PRICES IN THESE BASIC MATERIALS, OR ANY BUILDING PRODUCTS FOR THAT MATTER, AND A NUMBER OF FORMIDABLE MARKET PRESSURES ARE BUILDING THAT WILL DRIVE PRICES STILL LOWER."

Some of the most extreme responses to market conditions are coming in the areas that most heavily impact heavy and highway construction: diesel, asphalt, steel and cement costs. It is interesting to observe how quickly and steeply the price of diesel and steel has declined over the past few months, while the producers of asphalt and cement appear to be fighting off the trend as long as possible.

The best-documented decline has been in diesel, which has followed crude oil in a two-thirds decline since the July peak. Futures prices for diesel and crude oil are now below the year ago level, and very little seems to be in the way of a drop below $2 per gallon in winter 2009. While most of this decline is a result of plunging demand, there is a growing school of thought that the petroleum market fundamentals will not support these low levels much longer. In the same way that speculators drove the oil price approximately 40% above the level of support by supply and demand, a couple of well-known investors believe that the extreme selling pressure of the past 60 days has produced an oversold condition that supply and demand will drive upward in 2009.

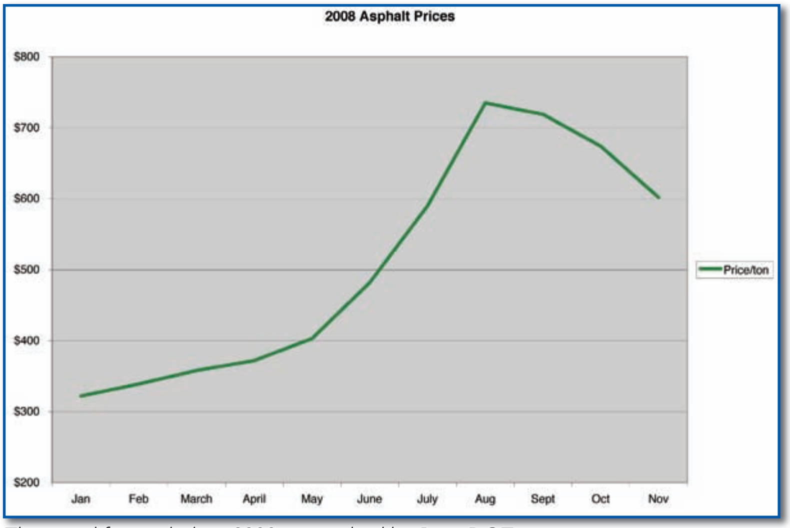
Jim Rogers has made his fortune by accurately spotting trends in commodities. He famously motorcycled across China in 1990 to write a book about the enormous economic potential he saw gearing up. Rogers began selling his oil positions about the time that crude hit $140 per barrel. Now he views the market as ready to rebound, and is buying long future positions. T. Boone Pickens is another energy businessman who views the current oil



The trend for #2 diesel in 2008, as measured by PennDOT.

price as unsupported by fundamentals, and urges moving to natural gas to replace diesel fuel. Like Rogers, Pickens sees the global supply of oil as relatively finite, and expects prices to climb to $100 per barrel or more during 2009.

Temporarily, the price of asphalt is behaving in a contrary manner to #2 diesel, the product from which it is refined. As the plants shut down in November, asphalt was still selling for $600/ton, about double the price it was when the plants opened in March 2008. With #2 diesel trading at about half its spring levels, and with construction activity dropping off steeply this winter, asphalt manufacturers and paving contractors will not be able to maintain these price levels. While it is possible that the asphalt plants may try to open at the $600/ton price, oversupply and falling demand will probably press prices down below $400/ton very quickly.



The trend for asphalt in 2008, as tracked by PennDOT.

The other basic material experiencing reduced consumption but holding its price as the winter starts is cement. According to the Portland Cement Association, consumption of cement and concrete in 2008 declined by 12.8 percent, and PCA expects further declines of 11.9 percent and 2.1 percent in 2009 and 2010. Because much of the non-residential demand dropped off in the second half of 2008, cement and concrete pricing has not experienced as much pressure until the fall. With double digit erosion in consumption expected in 2009, prices for cement and concrete should begin falling early in the year and should approach a 10 percent decline by mid-year.

Steel pricing was almost as volatile as oil during the first half of 2008. The heavy reliance on energy for production and shipping, combined with high global demand, allowed steel manufacturers to attach regular increases in scrap and energy surcharges, until the price of steel exceeded $1,200/ton. Like oil, however, rapidly falling demand eroded steel's price during the fourth quarter. Prices for H-1 scrap, which traded as high as $525/ton in July fell to below $90/ton in selected northeastern U. S. markets in late November. As the credit markets seized up, scrap prices fell by $75 to $100 weekly before stabilizing below $100/ton.

Before the end of 2008, conditions had weakened to the point that manufacturers had removed surcharges for scrap and energy, and were selling the product for a base price that had been increased earlier in 2008.

A final pressure on steel prices in 2009 will be the effect of a much weaker Chinese market, where expansion of internal capacity has been pushed in an effort to serve the domestic Chinese demand. With a slowing market in China, those manufacturers have been looking to foreign markets more aggressively. During October, U. S. markets continued a short-term trend of increasing imports, and according to the American Iron and Steel Institute, the global markets imported 713,000 net tons of Chinese steel. This is considered an alarming signal, especially since the Chinese stimulus program promotes increased exporting of finished goods, while maintaining its tight border controls over the exporting of raw materials. American steel industry observers see these actions as having the potential for a new round of steel dumping, which will put even more pressure on market prices.

Very few market conditions are emerging to support prices in these basic materials, or any building products for that matter, and a number of formidable market pressures are building that will drive prices still lower. For manufacturers and distributors that isn't good news, but for an administration looking to stimulate jobs with a massive infrastructure investment the timing could hardly be better to get the most bang for the buck. BG

HEAVY AND **HIGHWAY** CONSTR

America is as good as any other nation at taking things for granted. Our highway system is one of those things that we Americans assume will be there when we need it, and will be in good repair. Built in the 1950's, the interstate system was responsible for allowing our nation's economic boom to find its legs, but in the following 50 years dramatically less attention was paid to maintaining the nation's infrastructure as a competitive advantage.

States like Pennsylvania, and regions like Western PA, have a burden of maintenance for infrastructure that is disproportionate to its southern counterparts. The highways, railroads, and waste and water systems are older in cities like Pittsburgh, and many were built in ways that make it economically (and often physically) impossible to keep modern and compliant with today's regulations.

This story would have been that of a system strained and unable to keep up if it were written a year ago, however, the dramatic economic events of this fall and the election of Barack Obama as president have created a very different landscape.

Construction activity on the region's road system is set to get a big boost from the stimulus package that president-elect Obama has promoted. While its aim is to create new jobs (estimates are that each billion in infrastructure investment creates 25,000 to 40,000 jobs), the secondary benefit is that an aging system, which was financially untenable, will get a much-needed repair if the program is adopted.

Another benefit of an infrastructure program is that such expenditures act as an investment in economic development. The only recent comparison to the kind of program Obama has proposed was the interstate highway system investment during the Eisenhower administration. At the time, the purpose of an interstate system was to facilitate commerce in an economy that was exploding in the world market. Next year's program will also serve to ease some of the economic pressures that were growing as a result of poor infrastructure without crippling the state and municipal governments who have traditionally paid for the improvements.

Bridge Problems

Pennsylvania is like many states with lots of water, hills and mountains: It has a lot of bridges. Over the past decade or so, the portion of the federal and state highway funding that was allocated to bridge maintenance and repair grew increasingly inadequate. State transportation departments and advocacy groups raised warnings about the

UCTION **UPDATE**

ramifications of ignoring the issue, but little was done until August 1, 2007, when thirteen people were killed in the collapse of the I-35 Bridge in Minneapolis.

As might have been expected, the federal government immediately called for emergency spending to deal with the problem of structurally deficient bridges. While the Bush administration found $135 million to aid the state of Minnesota in the replacement of the collapsed I-35 Bridge, any remaining funds have been slow to follow. A five-cent gasoline tax increase was vetoed by the president, as was a $1 billion appropriation to pay for bridge inspections. By late summer, of course, federal emergency spending had been refocused to the economic issues. In fact, an Associated Press survey of the 20 busiest structurally deficient bridges in each state found that less than 12 percent had been repaired since the I-35 collapse. On the first anniversary of the I-35 Bridge failure it was estimated by the Federal Highway Administration (FHA) and the American Association of State Highway and Transportation Officials (AASHTO) that there were 152,000 structurally deficient or functionally obsolete bridges in America, and that the cost to repair or replace them would top $140 billion. Pennsylvania can claim 6,000 of those bridges, the most of any state.

Governor Rendell has taken a much more aggressive approach to Pennsylvania's bridge problems, challenging lawmakers and budget officials alike to identify every source of revenue possible to support a comprehensive repair and replacement program. Within the state's highway system, 411 bridges were identified for immediate repair or replacement. While a daunting challenge remains, Pennsylvania's reaction has resulted in a higher percentage of bridge projects than most other states.

Rendell also identified more than 1,100 of the 6,000 bridges that could be repaired as part of his Rebuild Pennsylvania program, which would devote $200 million per year for bridge reconstruction.

For 2009, the state has devoted funds to bridge repairs as part of the programs for PennDOT and the PA Turnpike Commission. In District 11, which covers Allegheny, Beaver and Lawrence Counties, PennDOT has allotted $153.7 million for bridge work in 2009, an allotment that rises to $177 million in 2012. The Turnpike Commission's capital plan calls for $424.6 million total expenditures (about $150 million in Western PA), of which a significant amount involves bridge work.

In addition to the state road work funded out of Harrisburg directly, another piece of the bridge puzzle is the work done by Allegheny County Public Works. Currently two projects, totaling more than $50 million are underway as part of the county's capital program, the Rankin Bridge and Duquesne Flyover. For 2009, there are no plans for projects that size, however the Jacks Run Bridge, in Bellevue, is the next project of significance (expected to cost $8 to $9 million), and that work could bid in late 2009.

Public Works Director Joseph Olczak identified several other significant rehabilitation projects being planned that the county would like to do but can't find funding sources. Plans call for a $35 million project at the Mansfield Bridge in 2010-2011, as well as million dollar rehabilitation work on the 'three sisters' bridges, Clemente, Warhol and Carson Bridges (formerly Sixth, Seventh and Ninth Street). "Federal and state funding has been dwindling, so we aren't sure of those schedules," Olczak said. "We hope the stimulus package will include money for county bridges, because Allegheny County has over 500 bridges."

Olczak said that Allegheny County has already been looking for projects that could be ready soon after the inauguration, in the hope that a stimulus package passes quickly that will fund municipal governments that are ready to ask. Allegheny County Public Works has about 30 structures ready to bid, plus road projects. Most of these have budgets well under a million dollars, sizes that would suit a lot of smaller local contractors.

Allegheny County is representative of the public entities at the lowest end of the food chain, and its status symptomatic of the biggest problem facing bridge and infrastructure maintenance, that of too much work, not enough money.

The Water Problem

The other huge local construction opportunity that is ahead for infrastructure is a comprehensive solution to the region's wet weather and sewer infiltration problem. Due to both aging sanitary and stormwater systems and combined systems that still exist, there are problems throughout the region for contamination of fresh water with sewage overflow.

In a nutshell, the problem is that stormwater that is meant to be captured and treated separately from sanitary sewage enters the sanitary system through one of three main ways: infill from groundwater due to cracks in the system, infiltration from damaged lateral connections or illegally connected lateral systems, and combined storm/sanitary systems that still exist. Regardless of the culprit, the result is that inflow and infiltration during wet weather causes sanitary systems to overflow into fresh water and excessive volumes at treatment facilities that are equipped to handle sanitary output, not combined collections.

The condition existed as a public health issue for a couple of decades or more, and municipal authorities were making improvements, expanding treatment facilities and separating sewage systems as they were financially able, but the evaporation of EPA funding in the 1980's made progress almost nonexistent. That all changed with the Clean Water Act in 1997.

The Clean Water Act prohibits the dumping of pollutants into waterways, including overflow by municipal systems. In 1997, the EPA cited more than 50 communities in the Allegheny County Sanitary Authority (ALCOSAN) service area for sewage overflows that violated the Clean Water Act. ALCOSAN provides sewage treatment for nearly one million people over a 300-square mile area. The combined citations would have totaled $275 million in penalties.

To address the issue, ALCOSAN and the Allegheny County Health Department (ACHD) created the 3 Rivers Wet Weather Demonstration Program in 1998 to help the 83 ALCOSAN municipalities address the region's sewage overflow problem. 3 Rivers Wet Weather operates as a regional resource for attracting grants and funding, and for the ongoing education about the problem. So far, 3 Rivers Wet Weather has awarded $6.8 million dollars for 33 innovative sewer-related projects throughout Allegheny County.

As impressive as that may be, the problem is massive in relation to the resources that exist. In 2007 dollars, the ultimate solution could exceed $2 billion to remedy all the issues along the 5,000-mile system. Such a solution represents the largest public works project ever undertaken in the region.

> "Within the state's highway system, **411 bridges were identified for immediate repair or replacement...** Pennsylvania's reaction has resulted in a higher percentage of bridge projects than most other states."

This past year the county and the federal and state environmental agencies worked out an agreement, an administrative consent order that allows ALCOSAN the time to develop a system-wide solution, design it, and move towards a construction project that will eliminate the Clean Water Act violations. The consent order buys the system time, but is a binding agreement that must ultimately be fulfilled.

To comply, ALCOSAN must meet a series of requirements for planning, design and construction, operation and permitting. These requirements include taking two main steps to ensure the project is in compliance:

For the sanitary sewer system, ALCOSAN will design and construct conveyance, storage, and treatment facilities that eliminate all sanitary sewer overflows, while also capturing and treating flows equal to all of the sanitary sewer system flow that is generated in the regional collection system.

For the combined sewer system, ALCOSAN has two design and construction options. The first option provides for the design and construction of conveyance, storage, and treatment facilities that capture and treat all peak dry-weather flow in the regional collection system and all wet-weather flow in the regional combined sewer system. The second option allows ALCOSAN to treat all peak dry-weather flow while capturing at least 85 percent of all combined sewer system flow and treating all wet-weather flow with the best practicable technology.

The ALCOSAN system is the largest in the region, but by no means is it the only one facing such issues. Within the past few years two large projects have been completed, the Cecil/Midway and Butler projects, and several others are needed, but the problem of funding remains.

"Most authorities are not planning capital projects in the next few years," explained Gateway Engineers Vice President Dan Dieseroth. "Everyone is reluctant to go into the municipal bond market right now, so there has to be an increase in fees or usage to justify the expense." Dieseroth points out that very few areas in Western PA have the kind of growth or political will to create that ramped up revenue. As a result, the few big projects being planned, like the ones in Mt. Lebanon or California, will likely sit on the shelves until an infrastructure funding plan is developed.

Paying For the Work

Funding for highway construction comes from a relatively few sources that have been stagnant for most of the decade. The largest is the state's allocation from the federal Transportation Equity Act, currently referred to by the acronym SAFETEA. Pennsylvania generates revenue from its share of the gasoline tax, motor license fees, bond issues, and from the Turnpike tolls. The latter used to be aimed at sustaining the Turnpike independent of the state budget, but of late the toll revenue has been used to supplement the PennDOT budget, an arrangement that was to be formalized under Act 44, passed in July 2007.

Act 44 had an aim of increasing revenues by using the PA Turnpike Commission to lease I-80 for 50 years, enacting tolls on that interstate highway and raising tolls on the PA Turnpike. As planned, a part of the increased Turnpike revenues, amounting to $2.3 billion, would be used by PennDOT to expand and repair highways, and to resurface existing roads. The Commission would also issue bonds, whose proceeds would partly fund construction on state roads not in the Turnpike system. Act 44 would

PA Governor Ed Rendell meets with House Speaker Nancy Pelosi during the Governor's Conference in Washington DC during the first week in December (photo by Alex Wong, Getty Images).

create revenues from tolls that would allow for $3.5 billion in bridge and roadway investment in I-80, and regular resurfacing, thus freeing the responsibility for maintaining I-80 from the PennDOT budget.

At the same time, the legislature approved requesting proposals for leasing the PA Turnpike, which would remove the burden of maintenance from the state. The successful lump sum was from the Albertis-Citi consortium, for $12.8 billion.

The Federal Highway Administration rejected the I-80 tolling proposal, and the state legislature declined to pass enabling legislation to accept the turnpike leasing agreement, causing Albertis-Citi to withdraw. These actions eliminated more than $2 billion in transportation revenue sources, and put the state right back where it started. The most dangerous part of returning to the status quo on funding is that the costs of infrastructure have hardly remained static. PennDOT's contracting volume for the last full year that Tom Ridge was governor, in 2001, just topped $2 billion. In 2008, the contracting volume was about $2.025 billion, yet the amount of construction that was procured with 2001 dollars would have cost about $3.2 billion in 2008. As bad as that is, the contracting volume for 2009 is set to be $1.8 billion.

The reduction in budget reflects the reduced revenues that resulted from the decreased miles driven by Pennsylvanians since gasoline prices started climbing above $3/gallon. Even with gas prices falling of late, declining economic conditions will continue to keep pressure on travel and driving. And with more consumers buying fuel-efficient cars, the same number of miles driven requires many fewer gallons of gas, and therefore lowers gasoline tax revenues.

According to PennDOT Secretary Allen Biehler, the broader financial issues remain unsettled in Pennsylvania. "Given the 63 percent inflation rate in construction materials over the last five years and the $100 million loss

"Funding for highway construction comes from a relatively few sources, and most have been stagnant for most of the decade."

of revenues into the Motor License Fund last year because of reduced driving, it is going to be tough to keep maintenance and improvements on an even keel."

It's easier to understand, then, why an infrastructure driven stimulus package is so popular in state capitals and municipal offices. Perhaps the most popular part of what has been floated by the Obama administration is the emphasis on ready to go projects. That provision has departments at all levels scrambling to find mothballed projects that could be resurrected by January.

For such a package to have real benefit in 2009, the stimulus will have to have teeth, ways to ensure that projects are true infrastructure improvements that will lead to both jobs and economic development, rather than window dressing projects, like park pavilions or municipal monuments, such have already been rumored to be popping onto lists nationwide.

The stimulus package remains a work in progress for an administration-elect until both the new president takes office and the next Congress opens for business. What isn't uncertain is that the size of the stimulus will continue to grow, as both the evidence of recession and job losses mount, and more infrastructure needs are identified. At the time of the announcement of his initiative, Barack Obama declined to estimate the cost, perhaps knowing what was to follow, but allowed that it would be a large number. Those with knowledge of the discussions at the time expected the stimulus to be in the $50 billion range, but almost immediately the nation's governors forwarded a request for $136 billion to remedy the infrastructure shortfall. As the ball drops in Times Square, estimates of as high as $175 billion are being floated.

Regardless of how high the number goes, what is certain is that unprecedented fiscal discipline will be needed to manage this stimulus and to pay it back without bankrupting future generations. It's also certain that the economic benefits that arise from the stimulus will be harder to document than the improvements to an aging infrastructure. BG


The completed Fifth Avenue access ramp.

Boulevard of the Allies Bridge Replacement

Pittsburgh has more than its fair share of difficult intersections, where new roads and old infrastructure collide to create frustrating traffic experiences. The West End Circle, the north side of the 31st Street Bridge, and the Route 51/Route 88 intersections are three examples of high traffic areas that somehow have to be served by awkward road connections.

The eastern end of the Boulevard of the Allies uptown section, where it meets Forbes Avenue in Oakland, is another of those intersections that drive engineers crazy. Traffic coming east tends to be moving at highway speeds when suddenly, hee-rr-ee's Oakland! Vehicles leaving Oakland on Fifth Avenue had to make the one block jog left at Halket Street, then turn right onto Forbes Avenue (going the wrong way), which acted as an entrance ramp for the Boulevard heading towards town again.

While no one liked the traffic solution, the Boulevard structure itself was extremely sturdy, built in 1928 as a trolley bridge from downtown, and proved to be more resistant to the elements than other structures over the years. "The bridge is a massive structure," says PennDOT project manager John Myler, explaining the rationale behind the replacement. "But it was becoming structurally deficient. The deck was deteriorating; some of the steel was failing." Beyond the structural deficiency, replacement made sense for the flow of traffic, Myler explained. "There was an awkward nature of the traffic, with the stop lane onto Forbes and the counter flow lane off Fifth onto the Boulevard."

The project entered into the PennDOT planning cycle in the early 1990's, and received a very different level of attention than most transportation projects.

Work proceeds in July 2008 on the new structure with downtown looming to the west.

For one thing, the bridge was an architectural bridge, with detail in the curved abutments, the concrete panels and even eagles on the bridge ends. PennDOT and its consultants spent a lot of time with community leaders, neighbors and business owners to get input about the design, and especially about running the project with the least negative impact to the community. "We spent time with the local leaders, the Mayor and other city officials, and recognized the 'Gateway to Oakland' concept of this project," remembers John Myler. "It's also a high-traffic urban area with the third highest employment base in the state (after Philadelphia and Pittsburgh downtowns)."

Like many large projects, the Boulevard project was large enough that the budget made it an easy target for deferral, particularly since its scope evolved over the years. Through three different administrations in Harrisburg, the project kept getting pushed back until the heightened awareness of the consequences of letting bridges become deficient moved the project into the letting schedule in fall of 2006. Unfortunately, the collaborative process of designing the bridge may have led to a number of wish list items being included in the bidding documents, and the project came in well over budget when it bid in September 2006, at over $31 million.

One bit of good fortune was that during the extended time that the project was planned, the state had begun to employ design/build as a delivery system for larger bridge and highway jobs to meet more aggressive schedules. Since a significant redesign was in order for the Boulevard project, PennDOT chose to re-work the contract documents and put the project through a two-step process similar to the federal system used for best-value contracting. During the winter of 2006-2007, the state requested technical proposal responses from contractors to pre-qualify a short list of respondents for design/build proposals to follow.

Joseph B. Fay Company, of West Deer, had been one of the original bidders on the project in 2006,

Joseph B. Fay Co. CEO Shawn Fay (left) and PennDOT Secretary Allen Biehler (second from right) are among those at the rainy ribbon cutting ceremony November 24, 2008.


Workers set the new eagle medallions on the Boulevard bridge abutments.

and the labor needed to complete the project. When the proposals were unveiled, Fay was the successful bidder at $29.1 million. While it saved critical dollars from the project, one of the key components of Fay's proposal was a dramatic change in the sequencing.

"The original schedule called for the Boulevard to be closed 300 days in the first year, but we decided to reverse the schedule and do all the ancillary work first, rather than taking down the bridge right away," explains Westrom. "We did the ramps and related work in the first spring to allow traffic to bypass the intersection more smoothly before we began limiting traffic in lanes on Forbes or Fifth. That gave access to Oakland that wouldn't have been without the peripheral ramps and access pattern."

PennDOT had been concerned about the impact of constricting Oakland's western entrance and exit, particularly as employment and enrollment continued to grow there. Joseph B. Fay's innovative approach helped mitigate problems for the community. John Myler thinks the many delays may have helped the cause as well. "The project had been talked about for fifteen years, but that was probably a good thing because the residents, businesses and employees were so relieved to see it get done that we didn't get many complaints."

and was very interested in the design/build opportunity; in fact, they were looking at others for PennDOT at the time. "We like having the chance to participate in a project while you can help analyze the constructability, and help solve problems in advance," says Tom Westrom, who runs Fay's Heavy and Highway group. "After the bids came in too high on this job, PennDOT decided to open it up, take technical submissions, and narrow the list of competitors based on qualifications." In the case of the Boulevard project, that meant a field of three design/build teams, odds that any competitor would find more appealing.

Fay Company aligned itself with SAI Engineering and worked on an approach that would trim some of the fat from the design, but also would streamline the schedule

An advantage of design/build for the owner is that the contractor takes on more of the risks of the job that are usually not in his province, like schedule and unexpected conditions. For firms whose management is heavily weighted with engineers, like Joseph B. Fay, this risk is an advantage. "We're solving these kinds of problems all the time when we think about how to do the job during estimating anyway," explained Tom Westrom. "The changes in design weren't that out of the ordinary, but the two biggest headaches of this job were the schedule, number one, and the underground utilities."

The project involved taking down three bridges and replacing them with one new bridge, so there was a significant amount of relocation of storm and sanitary lines. The area surrounding the project is packed with streets,

"We did the ramps and related work in the first spring to allow traffic to bypass the intersection more smoothly before we began limiting traffic in lanes on Forbes or Fifth. That gave access to Oakland that wouldn't have been without the peripheral ramps and access pattern."

road access and older buildings, not an area convenient for utility work. On top of that, there was a shortage of detail about the utility system.

"There wasn't a lot of information on where things were located so we always had to do exploratory excavation in order to see what was underground," recalls Westrom. "There weren't many maps from the city about utility locations, and very often lines turned out not to be where they were supposed to be."

Taking more time than was planned to identify where utilities are really located was one of the variables that Fay Co. feared could slow down an aggressive schedule that relied upon keeping to the critical path. But PennDOT's John Myler thinks that was Fay's strength. "I was always impressed by Fay's attention to detail, and their sheer effort to get difficult parts of the job accomplished without cutting corners," he noted. "For example, there was a period from May to August this year when we really had to get a lot done because the students were mostly gone. There was no changing the schedule for students to return, so they really had to put the manpower out there to get it done. It was impressive to see Fay's people just commit to getting it done no matter the circumstances."

Firms like Joseph B. Fay Co. aren't new to the challenges of meeting difficult schedules, but the challenge of meeting architectural expectations is a bit out of the ordinary for a bridge and highway contractor. "The interesting part was trying to be innovative and bring the project in the way everyone wanted it, and save the budget," says Tom Westrom. Because the majority of the project was already designed before it went out design/build, Fay had more constraints upon how much could be changed.

The most obvious pieces of the original design that remained were the three precast concrete eagles on the abutments. At 16 feet high by 14 feet wide, the eagles were a pleasant surprise for the neighbors who expected such architectural detail to be lost in the new bridge. John Myler believes they were an architectural nod to the World War I allies for whom the Boulevard takes its name. "There are eagles on the other end of the Boulevard, at the end of the downtown bridge (at Grant Street)," he explained. "Keeping that kind of detail was part of what we promised the Oakland community."

In the end, the biggest promise kept to the community was maintaining a schedule which limited disruptions in one of Pittsburgh's busiest areas. While the original schedule called for the project to run through May 2009, the major work was buttoned up in November, with just the final landscaping and asphalt paving remaining for the spring. A ribbon-cutting ceremony was held November 24, 2008 to give Oakland its new entrance. BG

Cleveland Brothers Equipment Company

In a region where it is not uncommon to find fourth - and fifth-generation family owned contractors, it's not surprising that one of the bigger supplier/service firms would be a family businesses going strong in its third generation, even if it is fairly new to the area.

The business can trace its roots back to the landscape contracting business that Bob and Roy Cleveland founded in 1937. As that business grew, the brothers became a bigger buyer of Caterpillar equipment, and after a decade were offered the opportunity to purchase a Caterpillar dealership in central Pennsylvania. In 1948, the business was formally incorporated as Cleveland Brothers Equipment. During the 1950's and early 1960's the business thrived, and in 1965 Bob Cleveland moved to New York to pursue additional dealerships, leaving Roy to operate Cleveland Brothers.

Roy's son Jay had started working with the company in 1961, and in 1963 Roy's son-in-law Bill Kirchoff joined the business. The construction industry experienced a number of difficult periods in the 1970's and early 1980's, and to counteract some of the cyclical downturns of construction, Cleveland Brothers expanded their repair business to include large truck engines. With


Cleveland Brothers Equipment Co. CEO Jay Cleveland Jr. (left) and COO Tom Kirchoff.

headquarters in Harrisburg, that part of the business flourished as the area became a major distribution and transportation hub, with three major interstates intersecting and linking the eastern seaboard to the Midwest.

In 1988, Jay Cleveland Jr. joined his father, and Tom Kirchoff started with Cleveland Brothers in 1994. Now President/CEO and Executive Vice President/COO respectively, Jay and Tom attempt to manage the business the same way their grandfather did, while at the same time keeping the company current with 21st century business practices.

One of the challenges of serving the construction industry is in growing the capacity to serve the biggest customers while maintaining the same level of service to the small customer as when the business began. Perhaps because Cleveland Brothers started as a small landscaping customer of Caterpillar themselves, the company has made providing that level of broad-based service a foundation of its business.

Even though their fathers had diversified the business, Jay Cleveland Jr. and Tom Kirchoff saw that their fortunes were still linked closely to the direction of the development and construction industry in Central and Eastern PA. In 2005, the opportunity arose to diversify their business strategically by acquiring Beckwith Machinery. Beckwith's business had a strong share in serving the mining industry, and was getting in on the startup of natural gas exploration in West Virginia and Southwestern PA. Acquiring Beckwith would allow Cleveland Brothers to expand their territory to the Ohio border, and south into West Virginia and Maryland.

By acquiring Beckwith in October 2005, Cleveland Brothers virtually doubled its size, and benefited from the fact that the acquisition included the equipment rental business, One Call Rentals, that Beckwith had grown. The new Cleveland Brothers became one of the ten largest Caterpillar dealerships in the nation. The deal also meant that Cleveland Brothers' biggest facility and largest market was now in metropolitan Pittsburgh. To realign its operations with this reality the corporate headquarters was moved to Murrysville, and Jay Cleveland Jr. relocated to Pittsburgh to work in that office.

The integration of two venerable businesses, especially family-owned businesses with almost 150 years of history, can be difficult and bumpy, but the process was made more effective because of a quality improvement program that Caterpillar had introduced to its dealers early in the decade. The Six Sigma approach to quality assurance and management had originated in the 1990's at General Electric, and was adopted later by Caterpillar. Six Sigma focuses on training management to look to reliable data, not intuition, to make decisions, and emphasizes constant objective assessment about how the company is faring. The goals of a Six Sigma organization are to develop processes that virtually eliminate defects in what a business' customers expect.

Caterpillar believed strongly in the benefits of Six Sigma and pushed it in both directions in its supply chain, supporting the training of key employees of its suppliers and dealers. By the time of the acquisition, both Beckwith Machinery and Cleveland Brothers had a number of Six Sigma 'Black Belts' (those trained to the highest degree in the methods) who could ensure that best practices from each operation were adopted by the new organization, and that the different cultures could be melded.

Cleveland Brothers now operates 27 sales or rental locations, including a central parts distribution center in Bellefonte, near State College. The company is the Caterpillar dealer in the 59 counties of PA that are west of metropolitan Philadelphia, plus 17 counties in West Virginia and two in the panhandle of Maryland.

In addition to dealing Caterpillar construction equipment Cleveland Brothers also offers power systems, generators, pumps, truck engines and Metso Minerals crushers. They also operate CB HYMAC, a hydraulic repair and maintenance shop.

Looking to the future, Cleveland Brothers Equipment must rely on expanding its newer businesses, and look to make the most of opportunities like the anticipated increase in highway construction as growth engines. Caterpillar has many fewer dealers than its main competitor, John Deere, and consolidation with adjacent dealers is unlikely. The company's management believes its mission is to focus on the success of their customers to ensure Cleveland Brothers' success and strives to give its customers a consistent experience, regardless of what dealer location they frequent.

Jay Cleveland Jr. and Tom Kirchoff have adopted the roles that their fathers played, Jay managing the operations and product support and Tom the sales organization, so that the business can thrive to be ready for another generation to come. BG

Company Facts

Cleveland Brothers Equipment Co.
4565 William Penn Highway
Murrysville, PA 15668
724-327-1300
www.clevelandbrothers.com
Number employees: 1,400
Annual sales: $600 million

A Saner Approach to Price Fluctuations

By Scott Cessar

This summer I worked with two separate clients — one a contractor that provides onsite construction and related services nationwide to producers and manufacturers under long-term contracts, and the other a specialty underground contractor bidding on a several hundred million dollar government project with a five-year schedule to complete — both faced with the problem of then rapidly rising diesel fuel costs.

At the time, diesel fuel — a commodity central to both clients' work — was approaching $5 per gallon and many experts were prognosticating that crude oil would, in short order, hit $300 per barrel. For the contractor/service provider, the problem was most immediate because, with the steep increase in the cost of diesel fuel, its operating margins on existing long-term contracts were being sharply affected. For the specialty contractor, the problem was to protect itself in its bid from future cost increases over the five-year term of the project while, at the same time, not making its bid uncompetitive by building in too great a hedge for possible future escalation of diesel fuel costs.

This problem of steep, rapid material cost fluctuations, however, was certainly not new to me as I had counseled clients on shortages and price volatility in construction materials a number of times over my 20-plus years of practice. For example, the price of steel soared some 50%-60% in the first half of 2004, when the immediate prior years had witnessed flat or falling prices. Similarly, in August of 2005, asphalt increased in price by close to 40%, as compared to the prior two years, when asphalt prices had only gone up about 4% per year.

Today, some six months after counseling these clients on the escalation of diesel fuel prices, the cost of a gallon of diesel has fallen to $2.40 per gallon and crude oil is now trading near $40 per barrel. Moreover, the price for unfinished steel is almost half of what it was at its peak earlier this year.

All of this, of course, has been brought about by the worldwide economic decline we are experiencing. This deescalation of prices some might think might be reason to not, at this time, discuss the subject of volatile market prices for construction materials. I would suggest,

> "…USING A COST ESCALATION CLAUSE IS "SANER" AS IT WORKS TO AMELIORATE RISK FOR BOTH OWNER AND CONTRACTOR…THIS PROMOTES FAIRNESS AND COOPERATION AND SHOULD REDUCE THE POSSIBILITY OF DISPUTES AND THEIR CONCOMITANT ADVERSE EFFECT ON COMMERCIAL RELATIONSHIPS AND ON ULTIMATE PROJECT SUCCESS."

however, that this is exactly the appropriate time for this discussion. Why? Because the proverbial shoe is now on the other foot, and owners who had enjoyed the upside protection of extended contracts based on firm prices when prices were rising are now questioning their contractor's margins as commodity prices decline. As such, this is the ideal time for all industry players to consider better ways to address the material price volatility we have witnessed and which has resulted in contract losses, impacted and delayed projects, and litigation as parties attempt to mitigate, shift or recover unanticipated losses.

As to litigation, I certainly respect clients that like a good fight. But the usual legal theories for relief for extreme cost escalation in a construction contract — impossibility, impracticability, frustration of purpose, mistake, and force majeure — (and while they turn on the exact facts and circumstances of each case) can be very difficult to successfully establish. Moreover, the decision to litigate will definitely add cost, create uncertainty and can harm relationships.

The Saner Approach

What then is the "saner" approach to the subject? It is the greater use of price adjustment clauses in contracts. Such an approach is certainly not new or novel. Price adjustment clauses are permitted already in certain, Federal, fixed price construction contracts pursuant to the Federal Acquisition Regulations. In addition, various state highway departments routinely use such clauses with regard to the cost of items such as asphalt, paving, cement, diesel fuel, steel and other materials.

Escalation clauses, however, must be carefully considered before adoption and implementation. Escalation clauses need to be carefully drafted and should identify the specific building material considered to be at risk for price fluctuation. Escalation clauses should set forth a notification procedure, by which the owner would be notified by the contractor of the price increase, should identify the price guide to be used to measure the change in price and should state how often during the job the escalation clause may be triggered.

As to the trigger for escalation, there are any number of variations. The most common is known as the "invoice method," by which the contractor uses an invoice or certification from its supplier to substantiate the changes in the price of the materials from the time the contract was signed to the time of the actual purchase. Another type of trigger is known as the "index method," by which an increase in the contract price based on escalation is documented by reference to a designated price index guide for the particular commodity, such as diesel fuel, steel, asphalt or cement, with the ability to adjust the index price for regional and local fluctuations and conditions. This approach works best in those cases where the supplier is unwilling or unable to provide a fixed price quote until the time of actual purchase of the material during the project. A third type of trigger is a hybrid of the "invoice method" and "index method," whereby the parties agree to a "certified bid cost" in which the contractor certifies its estimate of the identified material's cost based on either its current supplier price or an index price listing. In the event this "certified bid cost" should increase by more than a certain set percentage, such as 5% or 10%, either upward or downward based on the supplier's price or an index price listing, the contract would then be equitably adjusted accordingly.

This approach of using a cost escalation clause is "saner" as it works to ameliorate risk for both owner and contractor. By doing so, greater certainty is imparted into construction bidding and contracting on major commodity items. This promotes fairness and cooperation and should reduce the possibility of disputes and their concomitant adverse effect on commercial relationships and on ultimate project success. BG

Scott D. Cessar is the head of the Construction Law Practice Group at the Pittsburgh office of Eckert Seamans Cherin & Mellott, LLC.

How the Municipal Bond Market Got Stuck

The credit crunch that has consumed the real estate and banking worlds is now threatening the $2.6 trillion municipal bonds market. Bond issues pay for the lion's share of public construction, and are used in Pennsylvania by non-profit corporations, like hospitals or colleges can establish, to pay for capital projects in private institutions.

Municipal bonds come in a variety of forms, but for the most part these bonds are issued for long periods of maturity by public agencies who will use fees associated with the project, or growth, to pay back the debt. Buyers of public debt are attracted to the bond issues because they represent a reliable investment, one that is set up to be transparent, and more importantly, one that is backed by insurance. The majority of those bonds are owned by retail investors, many of whom want and need the sort of safety that's supposed to go along with investing in government debt.

At the end of 2008 a series of financial market problems compounded to bring the municipal bond market to a standstill, threatening the viability of public construction throughout the country.

The first problem wasn't with the municipal bonds themselves but started with the insurance companies that guarantee them. These bond insurers, companies like MBIA and Ambac, are supposed to ensure that the bonds are safe. Bond insurance lowers the cost of borrowing money. It's like having your father co-sign your car loan. With his good credit backing yours, the interest rate you paid was lower. For municipal bonds the insurer of, for example, Uniontown Area School District bonds would get a rating for that bond issue. The rating agencies, like Moody's or Standard & Poor's, will assign Uniontown Schools a credit rating that determines how risky the investment is and how high its interest rate should be. Let's say Uniontown's rating corresponds to a five percent interest rate in the market. If the school district buys bond insurance, however, its bond becomes AAA, reducing its interest rate to 4.75 percent. That's good for Uniontown School District, which can expand or renovate its facilities, and good for local taxpayers, who won't have to pay as much to get upgraded schools.

In the winter of 2007-2008 the balance sheets of the bond insurers began to show cracks, as the first of the asset-backed securities problems began dragging down insurers' assets. Bond insurance had historically been a very boring, very profitable business. It was like insuring against a hole-in-one at the local industry golf outing: the insurer rarely had to pay off.

> "At the root of the problems with the municipal bond market is the fact that without a credible insurer, the buyers of bonds have no assurance that what is being offered is of a definable quality. Municipal bonds aren't a risky class of investments, yet without some reliable rating a buyer can't be confident that his investment matches the risk."

The business was boring enough that it didn't attract many competitors until the insurance industry was rocked by the September 11 attacks. As more competition got into this lower risk industry sector, prices and fees went lower, and the established bond insurers began to diversify their assets by investing in mortgage backed securities, credit default swaps and other structured-finance instruments to keep their earnings high. As these securities unraveled the insurers suddenly faced having their own ratings cut, and suddenly the risk perception of their clients' bond issues went higher. Unless you have been asleep for six months you know that this turned into an ever-tightening death spiral, with some of the players in the market disappearing almost overnight. On November 4, Moody's cut the ratings of the final established bond insurer. The only insurer left with a AAA rating is the Bershire Hathaway unit which got into the business in February.

Absent the insurance, bond issues were viewed as higher risk investments, even though the underlying project may have been just as sound. Higher risk perception equals lower demand from the retail investor, the small individual or company that buys more than 75% of municipal issues. To respond to lower demand the public agency had to make the investment more attractive by offering higher yields, thus raising the cost of borrowing.

For institutional investors, the higher risk was more than a matter of perception. Most institutional funds have caveats that require that the securities in the portfolio be investment-grade, or AAA, or the fund manager is obligated to sell the security. When the wheels came off the insurance end of the business many existing bond issues were downgraded, triggering a flood of forced sales. And the shortage of AAA-rated bonds floated since then has kept the institutional investor on the sidelines.

It's important to remember that there is an inverse relationship between the bond price and the yield, or interest rate. If demand for municipal bonds is high, bond prices will be higher, and the interest rate offered can be lower. The reverse, of course is true.

Another problem was the disruption in the "auction-rate" securities portion of the bond market. In this $330 billion market, long-term bonds are, in effect, transformed into short-term ones by having the interest rate reset in auctions every week or month. The allure for issuers, including hundreds of municipal bodies, is lower interest rates than typical long-term bonds, and the ease of paying down debt if they build up a surplus, by simply taking part in the auction themselves.

In recent months there have been dozens of failed auctions, as investors are reluctant to participate without an assurance of the quality of the securities being offered. When the auction fails the interest rate on the long-term bonds automatically resets higher, which has left hundreds of hospitals, school systems, universities and the like saddled with higher debt service. The unexpected jump in borrowing costs led to panicked attempts to refinance bonds into long-term debt, which no one is anxious to offer, and led to the Treasury Department stepping in to offer to relieve the burden.

On top of these fairly insurmountable obstacles came the fallout from the stock market crash in early October. As fear-driven selling escalated during those amazing ten days, many large hedge and more risky investment funds faced redemption requests beyond their liquid assets. Since most of these requests carry periods of one month, the echo of this panic showed up in mid-November as these fund managers attempted to sell their most valuable assets to meet redemptions. In a majority of the cases the best-performing assets left were (you guessed it) municipal bonds.

This selloff put bond prices in free fall, driving yields up beyond any resemblance to the real risk inherent in the bond issues themselves. At one point in mid-November, the Dallas-Fort Worth Airport Authority's bonds, which are rated AAA and tax-exempt, were yielding seven percent.

At the root of the problems with the municipal bond market is the fact that without a credible insurer, the buyers of bonds have no assurance that what is being offered is of a definable quality. Municipal bonds aren't a risky class of investments, yet without some reliable rating a buyer can't be confident that his investment matches the risk. Until some means of rating and insurance become credible again, bond issuers will outnumber buyers by a large margin, making interest rates too high to justify taking on the debt, especially if a public entity thinks they might get more 'normal' results by simply waiting six months for things to cool out a bit.

Perhaps the most amusing example underscoring the value of credibility occurred when the state of Illinois tried to issue $1.4 billion in bonds on December 16, one week after Gov. Rod Blagojevich's federal corruption arrest. Following Blagojevich's charges, rating agencies downgraded Illinois' credit rating, resulting in about a one percent increase in the interest rate the state had to offer. Those charges ended up costing the state more than $20 million, according to Illinois Treasurer Alexi Giannoulias. The blended interest rate of the bonds was 4%, about twice what the state paid last spring for the same size sale, and about four times what the average six-month bond yields.

Analysts say the dysfunction in the municipal bond markets signals the end of an era of relatively cheap money for governments and the start of an era of tough choices for communities. If the trend in recent elections is any indication, however, communities are continuing to choose to use bonds to pay for civic improvements, even in tough economic conditions. In the November election 82% of ballot initiatives passed, totaling $54.5 billion, according to The Bond Buyer, a municipal finance publication. The rate of approval also increased over recent elections, with the approval ratings topping 70% overall.

While the industry defines the new normal, the costs associated with the risks of the current environment will result in underwriting spreads and higher interest rates for issuers in order to entice individuals to the market. In the meantime, it will be tougher for public construction to finance its work. BG

MBE/WBE Company Spotlight

VideoTek Construction

Victor Diaz has been planning to be in the right place at the right time for almost seven years.

Diaz received a degree in environmental science from Rutgers University and then shelved it almost immediately to start work for tool manufacturer Hilti Inc. in 1984. During his seventeen years there he spent most of his time working internationally, managing sales in Mexico and Central America, then as General Manager of Hilti operations in Puerto Rico, and Mexico. In 2003 he decided to put the scientist in him back to work, and started Crossroads Contracting Corporation to take advantage of the opportunities he saw coming in the sewer infrastructure market.

"Early in the decade I saw that the sewer rehabilitation business was really growing and that a lot of work was going to be needed to deal with all the old systems," Diaz says. Regions like Western PA, which is under a state consent order because of systemic sewer problems, represented great opportunity for technologies like cured-in-place polyurethane lining, and Diaz decided to pursue that niche.

"I hooked up with one of the bigger players in that business, a contractor from Rhode Island, and began mixing chemicals for use in sewer lining," Diaz recalled. "My business provided the resins used to saturate the fabric to create the finished lining."

Almost immediately, however, Diaz saw the market become very crowded and much more competitive, so he looked to transition his role in the sewer market. As a new business, Crossroads took its lumps but Diaz understood that was part of the process of evolving his business to find the right niche within a sector that was continuing to be strong, and could be resistant to recession. "No matter what's going on in the economy everyone still goes to the bathroom," he joked.

As contractors and suppliers jockeyed for market share with changing technologies and strategies, Victor Diaz observed that a constant in sewer rehabilitation work was the need for inspection during the design and evaluation phase. He entered into a joint venture with an Atlanta firm and shifted his business 100% to televising and cleaning of sewers. This led to two large projects for him in Maryland, which had more projects and more MBE opportunities than in Western PA. During the last couple of years Diaz worked exclusively in that area, effectively moving there.

VideoTek Construction owner, Victor Diaz (photo by Salsajam Photography).

It was during this period that he noticed that one nagging problem with his business was that the deliverable he provided his customers, an extensive report and videos, were often not very good. The data and video gathered in the field was turned over to technical people who prepared the deliverable materials in a software package called WinCan. Diaz found that the finished reports were weak, not as accurate because the people who handled the data from the field didn't work in the field, or even understand field conditions very well.

Victor Diaz thought another evolution in his business was due, one that would allow him to focus on these new growth areas, and bring his business back to Pittsburgh entirely. "I'm focusing on the data and technology of the inspections, and on lateral rehabilitation, which will be the next big thing, I believe."

As of January, he was wrapping up the work in Maryland and had launched VideoTek Construction. While his employees are finishing up those contracts he is managing a rehabilitation project in Irwin himself. Once his staff joins him in Pittsburgh, Diaz anticipates another evolution. "Just recently I've seen a number of contracts coming out here for inspection services, so I'm in a good place," he says. "We can stay small now to keep the overhead down, but once the rehabilitation ramps up we'll have to staff up to match the work."

In addition to his construction businesses, Diaz also serves as CEO of the Pittsburgh Metropolitan Area Hispanic Chamber of Commerce. BG

Company Facts

VideoTek Construction
6 Loop Street, Suite 4C
Pittsburgh PA 15215
412-628-8394
FAX 412-291-3367
vdiaz@videotekconstriction.com

What Does an Obama Administration Mean for Construction?

On November 4, 2008 Americans chose Barack Obama as the next president of the United States. The election was hailed as historic in a number of ways, and followed an extraordinary long campaign, with the focus of the battle shifting from positions on the war in Iraq to qualifications to the economy. As the financial system unwound in the weeks before the election, the economy became the sole focus of the campaign, and most political analysts attribute Obama's response to the crisis as what pushed him to his ultimate margin of victory over John McCain.

That fact is somewhat ironic, given that the business community in general regarded Barack Obama with some suspicion about his positions on taxes, and the perception that he would seek a redistribution of wealth. Yet in the vacuum that characterizes the leadership transition, the president-elect managed to instill calm with his announcements about the economy, and his selection of economic advisors.

The real test of confidence will come, of course, after Obama takes the oath of office. His presidency may be as anxiously anticipated as any since John Kennedy for its idealistic pledge of change, but from a practical standpoint, the analogy is probably closer to FDR. What will the first hundred days look like? And how are his priorities likely to effect the construction and real estate industry in Western PA?

To a certain extent, the continued deterioration of the national economy has dictated how the new administration will play its hand. In order to restore confidence to the markets, Obama has had to reveal more about his plans for stimulating the economy than he might have liked. What's been revealed, while not specific, has heartened the construction industry.

"I'm cautiously optimistic based on what we've heard," says Walt Krasneski of SAI Engineering, who serves as chair of the Construction Legislative Council, a regional advocacy organization made up of thirteen different industry associations. "The economy is in dire straits, and the new administration seems to be set on creating jobs through infrastructure investment. That's good news for all sides of the industry-architects, engineers, contractors, masons, carpenters, finishers, you name it."

Builders' Guild Director Jason Fincke shares Krasneski's optimism about the impact on labor. "I don't think anybody knows what's actually going to happen," he laughed. "But it has to be positive for labor I suspect. Obama's campaign spoke to making things better for the middle class, and what's more middle class than organized labor? We have needed a friend in Washington and I think we have one now."

Count Republican Representative Mike Turzai, a fiscal conservative who didn't support Mr. Obama, among those encouraged by what he's heard. "I think there has not been enough fiscal discipline at the state and federal levels for a number of years, and too much overspending, but if this administration is serious about transportation infrastructure it is a positive for our state and our region," Turzai said.

Associated General Contractors Chief Economist, Ken Simonson, expects a stimulus package will now be President Obama's top priority. "His first focus is to get the economy back in gear, and a major spending plan for infrastructure (cost to be determined) will definitely be part of that." Simonson wants to hear more specifics to judge the effect better. "How much is to be spent in 2009 will be the debate," he explained. "And until we know how much is to be spent, we won't know if the investment will mean an increase or just an offset against the state and local shortfalls."

As could probably be expected, the portion of the stimulus that will be infrastructure spending has been steadily rising (although not a dime has been actually committed) since the president-elect announced his plans, as government leaders at all levels have been adding to their wish lists, and labor organizations and contractor associations have been voicing their support.

The National Governors Association (NGA) at its national conference on December 2 urged President-elect Obama to consider establishing a national infrastructure bank that could issue bonds to finance infrastructure projects as part of the economic stimulus package currently being developed. During his campaign, Obama proposed creating an infrastructure bank that could issue up to $60 billion in tax-credit bonds, which provide investors with a tax credit instead of interest payments. NGA Chairman and Pennsylvania Gov. Ed Rendell called the infrastructure bank concept an important element in an economic recovery plan. The NGA also requested an even bigger investment of $136 billion for road and bridge projects that could be underway within months of the inauguration.

> AND UNTIL WE KNOW HOW MUCH IS TO BE SPENT, WE WON'T KNOW IF THE INVESTMENT WILL MEAN AN INCREASE OR JUST AN OFFSET AGAINST THE STATE AND LOCAL SHORTFALLS.

Rich Barcaskey is the Executive Director of the Constructors Association of Western PA, a heavy and highway contractors group. As you might imagine, his members have a keen interest in this piece of the proposed stimulus package. "I certainly have a favorable response for President-elect Obama's plans for an infrastructure package. The last I heard it was more than $50 billion for highways and billions for the water system," he said.

Barcaskey seems to be looking beyond the stimulus for Obama's potential impact. "The whole transportation authorization and re-authorization act is going to be up for discussion. The last time around a blue-ribbon panel was put together to study the needs," he noted. "With money as scarce as it's been all we've been doing here is putting band aids on the problems, and we need more to be competitive. I definitely see in developing countries the massive investment in infrastructure that is being done to help with economic development." Barcaskey believes that kind of investment should have more economic urgency under the new administration.

The return on investment can be very significant if the programs are executed properly. The nation's governors estimate that every $1 billion spent on infrastructure creates 42,000 jobs. In a time where many of the financial problems are leveraged to foreclosures and the derivative bank problem that result from failed loans, creating a couple million jobs can impact the root of the problem as well as spur consumer spending.

Another central component of the stimulus is expected to be a "green-jobs" program. This may include items such as home weatherizing, installation of smart meters designed to reduce home energy use, tax breaks or direct government subsidies for a variety of clean energy projects, including solar arrays, wind farms, biofuels, and clean coal technology. This aspect of the package would allow President Obama to marry the need for economic efforts with his campaign for energy independence.

Former Green Building Alliance director Rebecca Flora believes that the bad economy may provide an opportunity to apply some of the principals of green building to help with recovery. "Green building is about more than design," she explained. "It's relevant to green jobs and energy self-sufficiency. These difficult times may force us to change how we live, how we work, how we conserve the things we have instead of just throwing them away."

Flora begins working in Washington DC in January as the Senior Vice President for Education and Research at the U. S. Green Building Council. She sees the Obama adminstration returning to a regular conversation about green living. "He definitely gets it. USGBC has a strong policy team talking regularly with the Obama transition team."

A major counterweight to longer-range spending plans is a federal budget deficit that the Congressional Budget Office estimates grew to $438 billion in fiscal year 2008 and any new stimulus bill will make the 2009 budget gap even larger. Yet the delicate economy will make it difficult for President Obama to push through the tax reforms he talked about during the campaign. Even during the transition, the President-elect was moderating his rhetoric about tax burdens.

One local leader agrees with that moderation. Former Allegheny County Executive Jim Roddey, now a consultant with McCrory McDowell, is concerned that the tax policies of the campaign would be counterproductive. "My biggest concern is that the small to mid-size business will bear the burden of his new taxes, and that's where 90% of the job gains will come from as we recover."

Roddey's concern is not so much with the economy as the human service sector. He has seen a marked increase in the demands on the local food banks and shelters, and feels that further economic fallout will stress the system that is expected to be society's safety net. Speaking before the holidays, Roddey explained that the new administration was aware of the situation.

"The transition team has been signaling that it wants an expression of needs before the inauguration," he said. "We're going to give data that supports some of the critical needs. Pittsburgh is <u>not</u> one of the problem places, but what is starting to happen here is indicative of what's happening around the country. This is a time period where the focus has to be on basic human needs: food, shelter, energy, transportation." BG

Trend to Watch

Design-Build Highway Share is Growing

> ON THESE BIG PROJECTS DOING DESIGN BUILD GETS THEM COMPLETED IN TWO YEARS, INSTEAD OF TAKING FOUR YEARS LIKE THE TRADITIONAL WAY WOULD.

Although the design/build delivery system periodically surfaces as a hot trend in the construction industry, it is probably the oldest delivery method known to man. The almost ancient concept of the master builder (think of Vincent Price in the Ten Commandments) is, in fact, a one-person design/build machine.

Design/build has only been part of the landscape in infrastructure construction within the past two decades. State transportation officials began lobbying the Federal Highway Administration (FWHA) about twenty years ago to allow them the flexibility to use the transportation funds in methods other than design-bid-build. Beginning with the 1990 version of the Transportation Equity Authorization act, the FWHA initiated Special Experiment Project Number 14 to allow states to investigate and propose specific projects for alternative delivery systems.

During that decade and until 2002, states proposed 300 alternative method projects, and 140 projects were completed using methods other than design-bid-build, including 13 in Pennsylvania. Virtually all of these were some form of design-build. In December 2002, final guidelines and regulations for design/build projects became part of the authorization act, at the time TEA-21. Transportation agencies using federal highway funds, PennDOT and the PA Turnpike Commission for example, could now procure routinely using design/build.

Choosing design-build has similar advantages for the public owner of highways as for the owner of a building. First, the design-builder is a single source of responsibility and that generally results in the project being designed and constructed in a shorter period of time. Because they are together by choice and form one team, the designer, builder and subcontractors should work well together, at least in theory. Errors and omissions in the construction documents are the design-build team's responsibility and that risk is not passed on to the owner. The change in methodology doesn't eliminate risk for the state, however; it reallocates it.

There are two main trade-offs that public owners make when using design/build: final design control is ceded to the contractor's team and the owner loses the impartial engineering representative. These trade-offs pressure states to fully understand and articulate their intended scope of work at the outset, or else change orders will still occur.

The Turnpike Commission's Chief Engineer, Frank Kempf, acknowledges that those complications come with the territory. "Even with a conceptual design, there are still unknowns that can occur," he says. Kempf explained that this was less in the area of unknown field conditions and more in the realm of unanticipated design solutions in the proposals. Still, the uncertainties have not dampened his outlook on design/build. "We certainly like the speed with which we can get complicated projects out and under construction."

Kempf explained that the Commission's experience with design/build contracting was recent, delivering about six to eight projects in the past couple of years. All but two of those projects have been bridges, where the complexity seems to fit design/build better. One of the two highway projects, the $30-40 million Allegheny Mountain reconfiguration between Bedford and Somerset, is a great example of how successful design/build can be. The project improved one of the more dangerous stretches of the Turnpike, and probably saved the better part of two years of development.

While the Turnpike work has been awarded based on the proposal with the lowest construction bid, PennDOT has been awarding a portion of its design/build projects using a best value process, which makes the evaluation process more complicated and lengthy. In part, that is why PennDOT has chosen to use design/build primarily on bridge work also. The feeling is also that bridge work offers the best application of the method.

"On a large complex project like a major bridge there's always more opportunity for innovation," notes Cheryl Moon-Sirianni, Assistant District 11 Executive for Design. "Design/build gives opportunities for contractors with specific capabilities to apply those capabilities in methods that may have been designed out in a design-bid-build." Specific capabilities are what Tom Westrom thinks Joseph B. Fay Company can bring to a design/build project. "An experienced contractor can give input on constructability during the design that can save a considerable amount of budget and time," he says. "I can give you a small example: an engineer may design in a way that saves a few hundred dollars on a concrete pour, but he may not have the field experience to know that the contractor has to spend an extra $6,000 on forms to save that bit of concrete."

Westrom heads Joseph B. Fay's heavy and highway division, which has done a handful of design/build projects for the Pennsylvania transportation agencies. Recently they bid on a $100 million replacement of a nine-mile section of the Turnpike near the New Castle interchange. They are also short-listed for a twin bridge replacement on I-90 outside Erie, a PennDOT project which should bid in early 2009.

"It's a good idea for the state because it expedites the work getting done," Westrum says. "On these big projects doing design build gets them completed in two years, instead of taking four years like the traditional way would." Joseph B. Fay Company is staffed with many engineers throughout its management team, and has done its design/build work mainly with one engineer, SAI Engineering. Judging from their success, the teaming of Fay and SAI must work well, but an increase in design/build work will mean that the parties will face different roles more frequently, as the engineering firms might find themselves on opposite sides of the table from the same clients, depending on the project.

The change in roles for engineers isn't limited only to the relationship with the owner and contractor. Design/build delivery also impacts productivity expectations.

"We're used to a much slower project in the traditional method. We get a contract and it takes about a year to work through all the approvals and design," explains SAI Engineers' Walt Krasneski. "In design/build the production process goes from steady and slow to delivering on a much faster schedule."

While there may be a certain amount of Parkinson's Law to explain the slower pace of design-bid-build highway work, Krasneski's point goes more to the difference in expectations of the client and in planning what is expected internally for the engineer. After adjusting to the compressed engineering cycle, firms can often work more profitably in design/build mode, since the same overhead load turns over more projects, but that shift in expectations needs extra management.

For firms doing business with the state's transportation agencies, it is probably advisable to make the needed adjustments in expectations, because the outlook is for more, not less, design/build. Currently, PennDOT is showing 76 design/build projects in the queue for District 11 in the next six months, with a dozen in District 12, and six in District 1 to the north. And the Turnpike Commission expects to increase as well, especially if a highway/bridge stimulus becomes a reality.

"We're seriously looking at more projects to do design/build just to be prepared for a stimulus package," agreed Frank Kempf. "We're looking at assessing our needs on a number of projects, taking the small steps we need to be ready to get work out." With an expressed interest in funding projects that can be started within months, an Obama stimulus package should give life to more design/build work, a possibility that Pennsylvania's public owners seem ready to face. BG

Good Use of Heavy Equipment Adds to the Bottom Line

The question momentarily caught Joe Burchick off guard. When asked why Burchick Construction owns its equipment, Burchick laughed, "You know, that's a damn good question. Every time I sign a check for a big repair bill I ask myself that same thing!"

Burchick's dilemma is shared by contractors of all shapes and sizes, and the individual answer to renting or owning equipment varies depending on the owner's bias. But there is no debate about the fact that good management of the heavy equipment increases profitability, whether it's an asset or an expense.

"If you're not careful there is a tendency to take your equipment for granted," warns Dean Mosites, President of Mosites Construction & Development. "We don't get into the real big equipment-no pans or big dozers-but we keep a separate yard in Oakdale with five or six mechanics full time. Owning the equipment is a heck of an overhead expense, and managing the resources properly makes all the difference to the bottom line."

Not surprisingly, contractors who operate heavy equipment feel that the owners and developers of construction projects should give more thought to the subject, since it is self-performing contractors who fall into that category. Contractors who rely on heavy equipment to support the trades they self perform often do so for the control it gives them over productivity, and ultimately over schedule. And that's something that project owners have a shared interest in.

Having control of his own equipment makes a contractor more flexible in dealing with the regular disruptions that can derail schedules. Even small contractors are managing several projects at a time, and just a few days of unexpected down time can have a domino effect on the trades downstream.

By the same token, a nimble contractor can exploit down time on one project to accelerate a critical path on another, and if that can free up his crews sooner it relieves some of the risk on the work in process. If you're the owner of the project that's running behind you may not be particularly interested in the contractor's risk relief, but if you own the job that just moved ahead of schedule your perspective is a little different.

The need for such flexibility is more pronounced in infrastructure construction. "If you do enough heavy and highway work you have to have your own equipment," asserts Dean Mosites. "There's no roof over the job, no control over the weather, so you have to be flexible to adjust to conditions; and you have more control over schedule when you have your own equipment."

What are good management practices for heavy equipment? Well, it gets a little wonky here. The best fleet managers have extremely good organization skills, a facile understanding of financing, and a more than passing familiarity with how estimating and project management works.

Dave Alsing manages one of the bigger fleets in the region for the P. J. Dick/Trumbull group of companies. He knows his job is to know where every piece of the company's equipment is and to make sure it's working as planned. If not, he needs to make some fast adjustments.

> "The best fleet managers have extremely good organization skills, a facile understanding of financing, and a more than passing familiarity with how estimating and project management works."

The process will start in estimating a project. "When estimating looks at a project and starts developing a plan for building the job, they look at the different sizes of equipment, the productivity requirements of the plan they're developing, and judge if the site will allow the sizes that they are figuring on," Alsing explains. "I'll get contacted during the bid period to verify that what they need is available."

Assuming that the estimating process goes properly, and Trumbull gets the project, Alsing's department then shifts into another gear to handle the project management process. "We will monitor the use of our equipment every day to ensure it's being kept as busy as planned. If some of the equipment is idle because of a delay situation or is ahead of schedule we will move it to another job to try to boost the profitability there."

Boosting productivity is also a big part of the operator's role, says James Kunz, Business Manager for Operating Engineers Local 66. "Productivity is the name of the game," he says. "The more dirt you move, the quicker you take down the hillside, the more profitable the work is." Kunz says that much of the training they give their operating engineers is to recognize how to maximize the equipment they are given. "A good operator can make or break the job. The operator can help set up the job sequencing so that the most work gets done without disruption to other operations. He or she can excavate efficiently for example, so that not only does the trench get dug quickly but that the restoration goes smoothly at the other end of the job."

Kunz knows that the contractor's investment in equipment can be undone as well. "You can have the best equipment in the world, but if the operator isn't trained well enough you can't make money with it."

Making money in the field is what the investment in the equipment is all about. Calculating how and when to invest requires an analysis of a dizzying array of factors. The return on investment relies upon the equipment having work, so the timing of the business cycle, an estimated guess on the direction of the market going forward can impact the decision to buy or rent.

"A large piece of equipment, like a 100-ton truck, might sell for $1.2 million dollars compared to renting it for $30,000 per month," explains Trumbull's Dave Alsing. "Using eight year depreciation, we'd double the cost of ownership if we rented. Plus, there will still be another half of a 40,000 hour frame life remaining, so we can rebuild most of the truck and pick up additional savings, provided we have work." Alsing is also quick to point out that other factors, like maintenance costs, emission standards, newer technologies or changes in markets can all pop up to wreck those careful calculations after the fact.

Changing technology is one of the reasons that Ray Volpatt Sr. never has owned his own equipment since he started Volpatt Construction. Volpatt had experience managing equipment operations as an executive with P. J. Dick and Dick Corporation earlier in his career. "There's always a new gadget coming out, and it's like toys: if you're not careful you can buy a bunch of them," he says. "If you're renting, you can shift to the next big thing without investing in it."

Part of his plan when he founded Volpatt Construction was to limit his overhead for items like maintenance crews and yard space. In almost 20 years he hasn't found it limiting. "I find I'm more competitive when I have to be without having the overhead. When I was with the bigger companies we had to consider keeping equipment busy when we bid, and I think that would limit me," Volpatt says. "In almost twenty years I have always been able to rent what I needed, and 99 and 44/100% of the time it runs, and that isn't necessarily true when you own the equipment."

Renting or owning, contractors will likely increase their attention to getting the most out of all their assets as the economy slows, especially if the share of heavy and highway construction grows with a stimulus investment. In a make or break year, getting the most out of the heavy equipment you use can make a big difference. BG

Awards & Contracts

A. Martini & Company was the successful contractor for the $1.2 million Ohio Valley General Hospital Wound and Pain Management Center at the Mt. Nebo Commons in Ohio Township. The project is a tenant fit-out of 11,200 square feet, and was designed by Desmone Associates Architects.

A. Martini & Co. was awarded Phase 1 and 2 of the EP labs at Latrobe Hospital for Excela Health Systems. The completion date is scheduled for January 2009. Burt Hill is the Architect.

TEDCO Construction is currently working on two projects for St. Clair Memorial Hospital. Renovations are being done at the St. Clair campus for CT-Scan #1-3, and at the Mt. Lebanon Surgical Center. Valentour English Bodnar & Howell are the architects on the projects, worth approximately $1.1 million.

Federated Investors awarded TEDCO a contract for renovations to approximately 12,000 square feet on the 24th floor of the Federated Tower. TEDCO Construction was also selected to do tenant improvements for Federated Investors at their new space in the former Ericcson/Marconi complex in Marshall Township, now managed by PWC Property Solutions. Next Architecture is the architect on the $2 million project, which involves minor renovations to 100,000 square feet.

Rycon Construction was the successful contractor on the David L. Lawrence Convention Center Pedestrian Bridge Repair for the Sports & Exhibition Authority. Thornton-Thomasetti Engineers designed the $874,000 project.

University of Pittsburgh Medical Center awarded Rycon Construction a contract for UPMC St. Margaret's Three Rivers Orthopedics, a $2 million renovation to 14,000 square feet of space on the first floor. Burt Hill is the architect.

The Pittsburgh Green Initiative selected the team of Mascaro Construction, DLAstorino/Horizon Architects, LLC, CJL Engineering, Inc., and Klavon Design Associates, Inc. for assistance in site selection, development, and budgeting of its new home to illustrate Pittsburgh's leadership in sustainable design.

Mascaro is working with Carnegie Science Center to construct the new 20,000-square-foot SportsWorks facility as part of its ongoing expansion. The new exhibition space should be completed by late summer 2009. The architect is Renaissance 3 Architects.

Mascaro began construction of The National Aviary's new African penguin exhibit, Penguin Point, in December. Construction is scheduled to be complete by late spring 2009. The project architects are PGAV and SPRINGBOARD Architecture.

Mascaro completed construction of Clarion University's new student housing buildings in early December, ahead of schedule. Capstone Development Corp. developed the LEED registered project for the Clarion University Foundation, Inc.

Poerio Incorporated has been selected by JC Penney Department Store to renovate JC Penney Valley West Mall, Des-Moines, Iowa. It is a design build 100,000 square foot renovation. The job has a contract value of $1,800,000.

PNC Bank awarded Poerio Incorporated a contract for renovations to the PNC Consumer Loan Center 2600 Liberty Avenue. RSH Architects designed the 31,000 square ft. renovations.

Poerio Incorporated was selected as construction managers for Fed Ex Ground Carol Stream Illinois parking lot expansion and site improvements. The project is estimated at $1,000,000 and is scheduled to be complete in the summer of 2009.

Massaro Corporation was chosen by Medrad, Inc to provide general construction services for the Heilman Center Renovation. This reconfiguration project includes a plan for construction in seven areas and will begin in January of 2009. The architect on the project is WTW Architects.

Massaro Corporation has been chosen by The Neighborhood Academy to provide general contracting services for their upcoming 25,000 square foot school and a 25,000 square foot gymnasium and field house. The 12-month construction project is slated to begin in June 2009. The architect on this project is Burt Hill.

The Franciscan Sisters of Toronto Ohio have chosen Massaro Corporation as the contractor for the construction of a 10,000 square foot chapel and a 12,000 square foot Mother House. The architect on this $3.7 million project is The Design Alliance.

Jendoco Construction has been awarded additional work at the Kresge Theater by Carnegie Mellon University, including replacement of the theater's performance platform. The architect is Desmone & Associates Architects.

P. J. Dick Incorporated has been selected by the VA Pittsburgh Healthcare System, University Drive Division to construct the Cares Consolidation Phase 2 – Consolidation Building, Building No. 29. The new mental health facility, designed by Astorino, will be located in the Oakland neighborhood of Pittsburgh, PA. The $76,000,000 project consists of a 198,000-square foot new facility and minor renovations to the existing VA facility.

P. J. Dick has been selected by the Mt. Lebanon School District to provide comprehensive Agency Construction Management services for the Mt. Lebanon High School project. The project architects are Celli-Flynn Brennan Architects & Planners from Pittsburgh and OWP/P from Chicago, IL. The District is currently analyzing five different concepts ranging from total renovation of the existing high school to the construction of a new high school adjacent to the existing school. The estimated construction costs are expected to range from $80 million to $140 million. The District is anticipating a concept decision in February 2009. Preconstruction efforts will take approximately 18 – 20 months, and construction will take from 28 months to 40 months depending on the option chosen.

P. J. Dick, Small Projects Group was selected by Greater Johnstown Technology Park, LLC to provide General Construction services for the MTS Technologies tenant fitout project. The $659,000, 20,000 square foot fitout occupies the majority of the second floor of the 3-story Greater Johnstown Technology Park also constructed by P. J. Dick. L. Robert Kimball & Associates Inc. provided architectural services.

P. J. Dick, Small Projects Group was selected by the YMCA of Greater Pittsburgh to act as the Construction Manager for the new Thelma Lovette Family YMCA. The new 44,000 square foot full-service facility will occupy Centre Avenue between Hemans, Addison and Elmore streets in the Hill District neighborhood of Pittsburgh.

Burchick Construction was awarded a $3 million contract for a new Dining Hall at Camp Ligonier in Westmoreland County. MacLachlan Cornelius & Filoni are the architects.

The following projects were awarded to an affiliate company of dck worldwide: An approximately $10 million contract was recently awarded to dck north america for the construction of a new 60,000 square foot records storage facility in Morgantown, WV, for the U.S. Department of Energy. This project is being designed for LEED silver certification and is scheduled to be complete in August 2009.

dck north america was awarded a project as general contractor for the interior demolition and tenant fit-out of 35,840 square feet of the 9th floor of One Mellon Center for the Bank of New York Mellon in downtown Pittsburgh. dck is also completing similar work for the 22nd floor. DRS Architects designed the projects.

dck international has been performing as the Construction Manager for approximately $15 million worth of renovation work at the Cap Juluca resort in Anguilla and the Caribbean. This project includes a fast-track renovation of the luxury restaurant George's, complete rework of the reception and Main House public spaces and retail, landscaping improvements, beach re-nourishment, construction of a sales office, and the conversion of an existing villa into a sales unit.

dck pacific guam was awarded a $22 million project by Mobil Oil Guam that involves the replacement/new construction of two tanks in Guam and other terminal upgrades in Guam, Saipan, Rota, and Tinian. The project was kicked off in September and is scheduled to last approximately 24 months.

dck pacific guam was provided a letter of intent by the Guam Government Employee Federal Credit Union for the award of a $14.5 million design-assist contract for a new 44,000 sf credit union offices and branch facility.

dck pacific guam was also awarded a $33.1 million design-build project for a new consolidated indoor fitness facility at the Navy base. The facility will include fitness assessment, cardio training, gymnasium, locker and administrative facilities, an outdoor 50-meter 10-lane swimming pool with change house, a lighted outdoor s ynthetic playing field, and an outdoor running/jogging track. Project completion is expected by December 2010.

A $19.2 million design-build project was awarded to dck pacific guam for the repair and alteration of an existing facility that was once the DODEA (Dept. of Defense Education Activity) Guam High School. When completed, this facility will be the first LEED Silver certified project for the military and Guam. Expected completion is March 2010.

dck pacific guam was also awarded a $24.7 million design-build contract for Phase 1 of the Potable Water System Recapitalization at the U.S. Navy base on Guam. The work to be performed provides for the replacement of existing water lines with larger sized lines, including miscellaneous water mains and line connections, new emergency generator and new concrete building for the Navy Lake Pump Station, installation of zone water meters for various areas, replacement of vertical pumps with 500 horsepower horizontal pumps with variable frequency drives, replacement of butterfly valves at the reservoirs, and installation of pressure reducing valves for water lines. The design phase is now in progress. Project completion is slated for September 2010.

John Deklewa & Sons was the successful bidder on the William Pitt Student Union Fifth Floor Renovation at the University of Pittsburgh in Oakland. Moshier Studio is the architect for the $1.1 million project, which got underway in December 2008.

FACES & NEW PLACES

Landau Building Company is pleased to announce that Skylar VanSoest, Project Engineer, recently became a LEED Accredited Professional.

A.Martini & Co. is pleased to welcome Emily Landerman to their team. Ms. Landerman has joined as Director of Business Development; she brings with her 30 years of marketing and sales experience in construction in the Tri-state area. She is a graduate from York University, Toronto, Ontario.

Jendoco Construction Corporation has named Thomas J. Murphy to the firm's Board of Directors. Domenic P. Dozzi has been named CEO. Prior to this position, Dozzi was president. Dwight E. Kuhn has been named president. Prior to this position, Kuhn was executive vice president. Dozzi and Kuhn assume responsibility for the day to day operations of the company. Jendoco also announces that Dan Then, Estimator/Project Manager, has achieved LEED Accredited Professional.

Rycon Construction, Inc. is proud to announce Jim Froehlich & Tim Plinta passed the U.S. Green Building Council exam and are LEED® Accredited Professionals. Ken Paolino has joined Rycon as the Manager of Information Technology. Ken, a graduate of the University of the State of New York, has over 15 years of IT experience.

Mascaro is pleased to announce that the following employees passed the U.S. Green Building Council exam and are LEED® Accredited Professionals: Mark Belmar, Jeff Braum, Pat Harvey, Chris Madden, Tony Sands, and Jason Sheffield. This brings the total count of Mascaro's LEED accredited professionals to 19.

The General Contractors Association of Pennsylvania (GCAP) announced the election of Clifford R. Rowe, Jr. to Chairman for calendar year 2009. Mr. Rowe is Chief Executive Officer of P.J. Dick Incorporated, and the current President of the Master Builders' Association (MBA). Along with Mr. Rowe, the MBA is also represented on GCAP's Executive Board of Directors by its Executive Director, Jack Ramage.

Massaro Corporation has hired Brent Burmeister as a Project Engineer. He is a 2005 graduate of The Pennsylvania State University with a bachelor's degree in Civil Engineering. Brent joins Massaro from Conestoga-Rovers & Associates where he worked as a Project Engineer.

In November of 2008, Stevan Mranca joined Massaro CM Services, LLC as an Estimator. He joined Massaro from Brackenridge Construction Inc where he worked as a Project Manager and Estimator for the last two years.

Richard Bruce Fox joined Massaro Corporation in October of 2008 as the new Director of Human Resources. Bruce has been working in the Human Resources field for over 13 years. He joined Massaro from Dick's Sporting Goods.

David Loncaric joined the Massaro team as a Field Technician for Massaro Restoration. His responsibilities will include mitigation of fire, water, wind, and smoke damage as well as carpentry work, roofing, and finishing.

P. J. Dick Incorporated is pleased to welcome John R. Newell, Jr. to the position of Preconstruction/Estimating Manager for P. J. Dick's Mid-Atlantic Regional office in Columbia, Maryland. P. J. Dick is also pleased to announce the hire of Andrew D. Joseph, a Site Safety Manager at the 3 PNC Plaza project.

P. J. Dick Incorporated relocated its Mid-Atlantic Regional Offices in November from Reston, Virginia to Howard County, Maryland. The new office is located at 6994 Columbia Gateway Drive, Suite 110, Columbia, MD 21046.

Lindy Paving Incorporated, a member of the P.J. Dick-Trumbull-Lindy family of Companies, has acquired Seal-Master Manufacturing of PA, Inc. (SMM) and the John Gulisek Construction Company.

Seal-Master, located in Hillsdale, PA, manufactures pavement sealants and other asphalt maintenance products and equipment. Larry Rich, President and former owner of Seal-Master, will continue his service with the company.

John Gulisek Construction Company, headquartered in Mt. Pleasant since 1969, was renamed Gulisek Construction Company, LLC effective January 1, 2009. Clayton J. Stahl, Gulisek's Vice President/Managing Partner, will serve as President and will work hand-in-hand with Vince Tutino, President of Lindy Paving. BG

The Industry in the Community

Young Constructors Aid Toys for Tots

On December 4, the Young Constructors Committee (YC) held a holiday party for the benefit of the Toys for Tots Foundation, whose annual toy drive is spearheaded by the U. S. Marines each Christmas. All sectors of Western Pennsylvania's design and construction industry were represented as over 120 people attended the evening party at the Zen Social Club in Station Square. Revelers donated 200 gifts and the group raised $5,000 from sponsors and donors. This is the second YC Holiday Party.

Mara Bruce (l) and Rachel Lucas (r) of Schneider Downs flank Kelly Sukernek.

The total accumulated donation to the Toys For Tots Foundation in two years is more than $11,000 and more than 350 toys.

"The YC are so thankful for the generosity of our region's construction industry," said Michael Kuhn, Chairman of the YC. "We set out to do something special for a charitable cause benefiting children and the overwhelming support is a testament to the acceptance of this event."

Jay Sukernek, Dan Bell & Michael Kuhn from the Young Constructors present a check for Toys for Tots to Marine Lance Corporal Joel Stanga.

(left-to-right) Josh Lorenz of Meyer Unkovic & Scott, Gino Torriero of Nello Construction, Metz Lewis' Dean Falavolito and wife Nichole.

NAIOP Night at the Fights Benefits Habitat for Humanity

The Pittsburgh chapter of the National Association of Industrial and Office Properties held its 9th Night at the Fights, benefiting Habitat for Humanity on October 30, 2008 at the Omni William Penn. Approximately 500 attended the event which raised $20,000 for Habitat. During the nine years NAIOP Night at the Fights has contributed $350,000 total.

Lou Oliva of Grubb & Ellis, Elmhurst's Bill Hunt and Jason Bunda of Imperial Land enjoy the pre-fight atmosphere.

Night at the Fights emcee Sally Wiggin introduces another bout.

MBA Members Help with Extreme Makeover

Crews and superintendents from A. Martini & Co. and Jendoco Construction were among the hundreds of workers who helped Pittsburgh homebuilder Montgomery & Rust demolish and reconstruct a home for the Frank and Tracy Slaughter family on Grandview Avenue in Penn Hills. Beginning with the "knock on the door" to announce the family on the first day of filming on October 17, crews and volunteers from over 110 businesses aided the Extreme Home Makeover team in rebuilding the home, taking seven days to complete the construction, with the 'move the bus' ceremony held on October 24.

The show is expected to air in February 2009.

Best Value Contracting Seminar Held in City

On October 28 the Master Builders' Association welcomed Rosemary Gilbertson, from the US Army Corps of Engineers Louisville District, Mark Lewandowski, of the General Services Administration, and PA Dept. of General Services Secretary James Creedon to the Engineers Society of Western PA for a mid-day seminar on best value contracting.

MBA Executive Director Jack Ramage moderated the presentation of the best value contracting practices and expectations from the different state and federal agencies. The seminar attracted 83 professionals from Western PA to hear the USACE, GSA and DGS plans for using best value contracting, and the trends that the experts saw developing.

(left-to-right) Mike Mascaro, MBA Executive Director Jack Ramage and DGS Secretary Jim Creedon at the best value seminar held at the ESWP on October 28.

A dozen A. Martini & Co. employees helped with the Extreme Makeover project in Penn Hills, including owners Angelo Sr. (fifth from right), Angelo Jr. (third from right) and Anthony Martini (second from right)

GSA's Mark Lewandowski chats with Dick Kotarba from Meyer Unkovic & Scott LLP (right).

Jack Ramage with Rosemary Gilbertson from the Corps of Engineers, and Mark Lewandowski from GSA.

Mascaro Construction and their friends helped raise funds for Cystic Fibrosis.

Mascaro Celebrity Bartenders Benefit Cystic Fibrosis

In association with the Cystic Fibrosis Foundation, Mascaro hosted a celebrity bartender event on Tuesday, November 18, 2008. Held at McFadden's on the North Side, the three-hour "Get Together for a Cause" raised over $5,000 courtesy of the generous tips from employees and subcontractors in attendance.

Massaro Corp. associates work to paint the YMCA. (Top L to R) Jeremy Tartt, John Buechli, Renee Batronis, Matt Winkler, Adam DiMenno, Justin Lamb, James Johnson (Bottom L to R) Bruce Fox, Lisa Clark, Zach Schweitzer, Jeff Weiss, Jeremy Bowlby.

Massaro Corporation provides a Day of Caring to the YMCA!

On November 7, a team of Massaro Corporation employees headed to the YMCA, located on the Boulevard of the Allies, to donate their time, energy and painting skills as part of the United Way Days of Caring. They re-painted hallways, exercise rooms and a lobby area. BG

(left-to-right) Rob Sklarsky of Zambrano Corp, Emily Landerman of A. Martini & Co. and Harris Masonry's Scott Harris at the Builder's Exchange annual banquet at the Duquesne Club.

Peter & Ryan Burke of Huntingdon Insurance, Barbara Brizendine of Westfield Insurance, with Lee Totty, Yarborough Development.

MBA Membership

MBA MEMBERSHIP

The Master Builders' Association (MBA) is a trade organization representing Western Pennsylvania's leading commercial, institutional and industrial contractors. MBA contractors invest in a skilled workforce, implementing award-winning safety programs and offer the best in management and stability.

The MBA is a chapter of the Associated General Contractors of America, the nation's largest and oldest construction trade association. The MBA is committed to improving the construction trade association through education, promoting technological advancements and advocating building the highest quality projects for owners. To learn more go to www.mbawpa.org.

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Closing Out

Responding to the Transportation Challenge

By Allen D. Biehler, P.E.
Pennsylvania Transportation Secretary

In the midst of worldwide financial gloom, a glimmer of light is breaking through. Commentators are paying more attention to a course that can help jump-start the economy now and position the United States for sustained growth as it works its way out of the credit crisis. Investing in our highways, bridges and other support systems is gaining credence beyond the transportation community.

Both as Pennsylvania Transportation Secretary and for the next year, as president of the American Association of State Highway Transportation Officials (AASHTO), I have been and will be preaching the message about the efficacy of taking care of highways and bridges and how transportation must address climate change and energy security. Governor Edward G. Rendell likewise has made this message his top national priority. He is now chairman of the National Governor's Association and co-founder of the Building America's Future Coalition and is using both forums to persuade President-elect Obama and Congress that addressing the $1 trillion backlog of infrastructure needs is very smart public policy.

As AASHTO president, I have outlined three emphasis areas that I would add to this debate:

Authorization: The viability of the federal approach to transportation is very much in question. Congress's use of earmarks generated negative publicity that some political candidates use to deride infrastructure investment as wasteful pork. Volatility in fuel prices and the resulting drop in driving are undercutting revenue streams into and out of the federal Highway Trust Fund. We must continue educating the public about the benefits of transportation investment, and work with all partners and Congress on creating a new transportation program.

Sustainability: We are simply beyond the point where we can deny that transportation plays no role in our climate. The transportation system contributes about one third of the nation's greenhouse gas emissions. About 72 percent of the transportation sector's emissions are generated by road transportation. In its July 2007 publication, *A New Vision for the 21st Century*, AASHTO identified bold but achievable goals for reducing greenhouse gas emissions from road transportation. These goals include doubling the fuel efficiency of passenger cars and light trucks to reduce consumption 20 percent in 10 years, doubling transit ridership by 2030, reduce the growth rate in vehicle miles traveled by 2055 from the projected 7 trillion to 5 trillion, and increase the percentage of those who carpool, walk, bike or work at home.

Our approach to improving transportation has to include partnerships across modes and levels of government to create communities and transportation systems that last for generations, planning and designing more efficient multi-modal transportation systems, using 'green' construction and maintenance practices, and learning and sharing our successes.

A Freight Strategic Business Plan: The nation's ability to move goods will determine our economic health. There are serious issues to address: rail chokepoints, port capacity, freight movement bottlenecks on our highway system, and capacity of inland waterways. We must identify the primary problems hampering freight and develop a strategic plan of investment and other initiatives to produce a world-class balanced and integrated freight and goods movement system.

In Pennsylvania, bridges pose the most serious challenge. We have more than 6,000 structurally deficient bridges, the most of any state in the nation. While safe, these bridges need attention if they are to remain open and free of economic-stifling weight restrictions. But the price tag is more than $11 billion in 2007 dollars. Governor Rendell has focused on bridges in his six years in office, raising the annual expenditure on bridge contracts from $259 million the year before he took office to nearly $1 billion this fiscal year. Moreover, the Governor reached agreement with the Legislature in July on an accelerated bridge program that will tap $350 million in bond funds to help us start repairs on 411 of the structurally deficient bridges in this fiscal year.

As I said at the outset, there is reason for optimism. As more voices weigh in on the importance of addressing the nation's transportation needs, we should be able to reach consensus across the political divide to remedy these long-standing issues. The United States and Pennsylvania will emerge stronger.

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